JULY 1950 2/6

THE BANKER

VOL. XCV No. 294

FREEDOM TO INFLATE

REPORT ON EXCHANGE RESTRICTIONS

THE PLANNED NEGLECT OF CAPITAL

by Graham Hutton

AMERICAN MONETARY POLICY—II

by Professor E. V. Morgan

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CONTENTS

	PAGE
Frontispiece: Mr. Patrick McGilligan, T.D.	xxix
A Banker's Diary	1
Freedom to Inflate	7
The Planned Neglect of Capital Formation *By Graham Hutton*	11
Report on Exchange Restrictions	17
American Monetary Policy since the War: II—The Federal Reserve's Fight for Stability *By E. Victor Morgan*	21
British Industry and the Schuman Plan *By A Special Correspondent*	27
Ceylon's Central Banking Experiment	33
Risk Factors in "Foreign" Banking: III—Exchange Business, Guarantees and Travel Services *By Service Etranger*	39
Ireland—A Financial and Economic Survey: The Balance of Payments Problem *By G. A. Duncan*	43
Industrialization in Ireland *By Alexis FitzGerald*	49
Irish Agriculture To-day *By James M. Dillon*	52
International Banking Review	55
Appointments and Retirements	60
Banking Statistics	61

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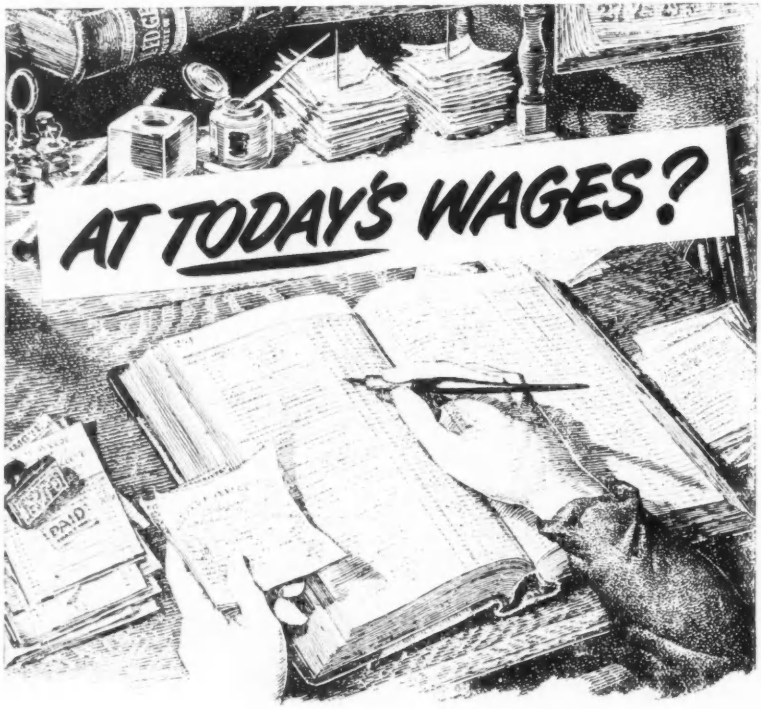
MR. PATRICK McGILLIGAN, S.C., T.D.
(Minister for Finance for Eire)



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A Banker's Diary

THE monetary authorities have carried through in the past month one of the most adroit manoeuvres in the gilt-edged market that has been seen for many a day. It is significant that this success was associated with an issuing technique of the pre-war brand, and quite the reverse of the flamboyant and over-ambitious tactics of the first post-war Chancellor. The operation took the form of a cash offer, limited to £100 millions at a price of 99½, of a further tranche of the 2½ per cent. Funding Loan, 1956-61, and of a simultaneous invitation to holders of the 2½ per cent. National War Bonds, 1949-51, to exchange their holdings for an equal nominal amount of Funding Loan plus £1 13s. 9d. per cent. in cash. The cash issue price offered a fractional turn compared with the market price of the existing Funding Loan, but the cash bonus for converters was exactly equal to the difference between the pre-existing price of the 1949-51 bonds (101 3/16) and the cash issue price of the new loan. In short, the arrangements were strictly orthodox; and the unusual feature, by post-war standards, was the request for cash—and a limited amount of it—without any simultaneous announcement that the bonds to which the conversion offer was made would be called for early redemption if not converted.

The Conversion —and After

This limited-objective manoeuvre has a significance for the gilt-edged market well surpassing its size. The relevant background, as it happens, was fully analysed in THE BANKER last month. It was argued then that the authorities, in pitching the terms of the Electricity issue at a level that obliged them to absorb a disproportionate amount of the B.E.A. stock themselves, had quite clearly taken a chance. In the full fiscal year 1950-51, the "departments" are most unlikely to have any net new funds available for investment, and are apparently aiming at avoiding credit expansion—which is the only means by which they could otherwise add to their marketable holdings. Yet they began the year by absorbing some £100 millions of B.E.A. stock. The inevitable conclusion was that, thereafter, they were bound to be net sellers. If the validity of this analysis now seems to be confirmed, we little expected that the confirmation would come so soon. The timing of this new operation took everyone by surprise; but therein lies much of its skill. Needing to secure cash to redress the effects of over-absorption of the B.E.A. stock, the authorities determined to rake it in while the going was good, but not to overreach themselves or overstrain the market by seeking too much. Moreover, by concentrating upon the "short" end of the market, they were able to do three things simultaneously—to capitalize the relative strength that has persisted in the shorts ever since last year's drive for liquidity, to avoid pressing upon the other end of the market (which was getting its fill of B.E.A. stock and had soon to face the first Coal compensation issue), and to attack the block of £714 millions of 1949-51 bonds.

The results must have reached the best official expectations, for all three objectives were secured and yet buttressed the short-run firmness of the whole market. The cash issue was fully subscribed, while conversion applications totalled £505 millions. It is doubtful, however, whether any large proportion of these represented private conversions. The authorities themselves probably

held at the outset approaching £350 millions of the 1949-51 bonds; while the discount market, fearing an early redemption (and finding the Funding Loan wholly unsuited to its specialized needs), promptly sold almost the whole of its £100 millions or so, mainly to the special buyer (partly against purchases of 2¼ per cent. Exchequer Stock, 1955). On the assumption that the official holdings were fully converted, these two blocks would account for most of the £505 millions; but, since it is hard to understand why private holders outside Lombard Street should now wish to hold £200 millions of so short a bond, there is a widespread suspicion that the authorities have in fact retained some of their 1949-51 bonds unconverted. Meanwhile, some large cross-currents have been set moving. The discount houses, among others, are mostly—and perhaps prematurely—taking it for granted that the 1951-53 bonds will be redeemed near their earliest date, and since they yield virtually nothing on that basis, there has been some heavy selling. This has given the authorities the chance to sell further lines of the 2¼ per cent. Exchequer Stock, and the net effect has been the rather undesirable one of lengthening rather sharply the average life of Lombard Street's now diminished bond portfolios.

From the official point of view, this is not perhaps any serious immediate disadvantage—not, at least, when set beside the fact that, in effect, a large slice of the 1949-51 bonds has been cleared out of the way by means of re-sales of longer bonds, as well as of B.E.A. stock to investors generally, thereby freeing part at least of the cash proceeds of the new issue. It would be rash to assume, however, that all this sleight of hand can work miracles. The gamble has come off—but the official cash position still looks tight and the new counters in the departments' portfolio are not everybody's choice. In short, it will be time enough to talk of dealing with 3½ per cent. War Loan in 1952—a few volatile spirits are speculating about that—when the nation's overall capital account is much more surely balanced than at present seems conceivably in prospect.

E.P.U. at Last

THE past month has been a period of exceptional activity within the Payments Committee of the O.E.E.C., where most of the final touches have been put to the proposed European Payments Union. Several threatened last-minute hitches have been overcome and it now seems virtually certain that the O.E.E.C. Ministers' Council, which meets in Paris on July 6, will be able to give its approval to the final draft of the scheme—with retrospective effect to July 1.

This final draft, however, seems likely to differ in some important respects from the interim draft outlined in THE BANKER last month. In the first place, it soon became clear that Britain did not intend to endorse the suggestion that creditors in the periodic E.P.U. compensations should be given a continuing option to hold any sterling surpluses either in sterling or in clearing units. Britain preferred a more definite arrangement, and its counter-proposals to the Ansiaux scheme suggested that Britain should have the right to enter into negotiations with each E.P.U. participant in the hope of securing undertakings that any country that found itself a net creditor in the E.P.U. compensations (i.e. on its intra-European payments as a whole) would hold in sterling whatever portion of its surplus had accumulated in sterling. Such arrangements, however, will not affect the creditors' rights to receive gold; as soon as their net new accretions of sterling, plus their net accretions of

clearing units, exceed the ceilings discussed below, they will rank for gold payments. As expected, this British formula for making possible full British membership of E.P.U. has apparently been accepted by the special Ministerial Committee of the O.E.E.C. One unexpected feature is that bilateral agreements, similar to those contemplated to define the position of European accumulated sterling balances, are to be negotiated to deal with European accumulations of other currencies. These agreements are to provide for amortization of the debts over a period.

It is on the provisions for credits and gold payments that the main contest raged last month. It will be remembered that the British counter-proposals suggested that each member should be given " gold-free " borrowing rights (i.e. exercisable without any gold payments) equal to 10 per cent. of its total visible and invisible trade with other E.P.U. members in 1949 and should be allowed to finance a further 10 per cent. of this " basic turnover " by additional borrowing to the extent of half that proportion, provided that the other half was settled by paying gold to the E.P.U. Under the British proposals each net E.P.U. creditor, on the other hand, would have had a " gold-free " lending obligation (i.e. without right to receive gold) equal to 5 per cent. of its basic turnover and an " additional " lending obligation (linked to gold receipts) equal to 15 per cent. of that turnover. The Belgians and some other O.E.E.C. members have protested that these proposals provided for excessive credits and borrowing rights. After some bargaining it has been agreed that gold payments should be brought into the reckoning at a much earlier stage. The present draft of the scheme envisages that each member should have " gold-free " borrowing rights and " gold-free " lending obligations to the extent of only 3 per cent. of its basic turnover; thereafter, to the extent of a further 12 per cent., each member will have borrowing rights and lending obligations linked to partial gold payments and gold receipts on a sliding scale. (For example, if a debtor exercises an " additional " borrowing right equal to 3 per cent. of its basic turnover—after its 3 per cent. " gold-free " right—it will receive 4 units of credit for each unit of gold paid out; if it pushes its borrowing to yet another 3 per cent. of basic turnover, it will receive only 1½ units of credit for each unit of gold paid; and at the end of the scale the new gold payment will exceed the new credit.) The net result seems to be that each member will have maximum borrowing rights and lending obligations equal to 9 per cent. of its total visible and invisible trade with other O.E.E.C. members in 1949—but by the time this full level of 9 per cent. of borrowing or lending is reached it will have involved associated gold payments or receipts equal to 6 per cent. of that turnover. An exception has been made, however, for Belgium; she is excused the full lending obligation that would have been imposed on her under this formula, on the ground that she has an exceptionally large external trade (including entrepôt trade) in relation to her national income and would be unable to bear the heavy burden that would otherwise have been imposed on her. A few minor problems still remain to be settled. These include the terminal arrangements for the scheme (which in the first instance is intended to run for two years) and the conditions under which a member may withdraw. There is, however, no reason to suppose that these problems cannot be resolved. There is therefore every reason to hope that next week's meeting of the O.E.E.C. Council will at long last give E.P.U. the signal for " Full speed ahead ! ".

The Australian Pound

FOUR times in the past twelve months Australian Governments seem to have teetered on the brink of raising the sterling value of the Australian pound from 16 shillings to parity. When the 1948-49 export season ended last June, a change in the rate was postponed because the price of wool then appeared (quite illusorily) to be tottering to a fall. When the pound sterling was devalued last September, the Chifley Government allowed the Australian pound to be devalued in step with it, because it wished to avoid any adverse political repercussions of a fall in farm incomes just before the election. Then, after the Menzies Government was returned in December, it decided, after some deliberation, that a change in the rate was undesirable while the export season was in full swing. And now, at the end of the 1949-50 export season, the issue has apparently been shelved again—because of the personal opposition of the Federal Treasurer, Mr. A. W. Fadden, leader of the political party that is pledged to support farmers' interests. At the time that THE BANKER went to press many of those connected with Australia apparently believed that this opposition would not long prevail; overseas importers and investors were scrambling for Australian currency in a way that boded no good for the Dominion's long-term interests.

The economic arguments for and against appreciation are fairly evenly balanced. For the past two years Australia has been running an export surplus at the fantastic rate of about 10 per cent. of her national income. The inflation generated by high export incomes has not only driven up internal prices and costs ; it has also caused the growth of a rash of uneconomic luxury industries and other boom-time activities within the economy. When export incomes fall, the re-adjustment will be painful. Those who advocate appreciation of the pound argue that this re-adjustment should be faced now while Australia's primary products are still selling easily abroad—and while the rash is still of manageable proportions. Those who advocate maintenance of the present rate argue that there is little virtue in meeting trouble before it is due; they point out, too, that Australia may be able to counter an eventual export recession by an ambitious programme of domestic investment—financed by drawings on the Dominion's ample sterling reserves.

Fall in Bank Deposits

THE behaviour of bank deposits in the four weeks to mid-May seems to have allayed most of the uneasiness aroused by the steep rise shown in the clearing banks' statement for April. It was suggested in these columns last month that this rise might be a portent of renewed monetary expansion—the general drift of economic policy is certainly increasing the risk of such a trend—or might be mainly the result of the distortion that is apt to creep into any financial statistics at the turn of the financial year. The latest statement, summarized in the following table, lends support to this technical explanation; it shows that April's contrast with 1949 experience has now been reversed. In the four weeks to May 17, net deposits fell by some £14½ millions, whereas in the corresponding period of 1949 they rose by just under £24 millions.

Two factors mainly explain this satisfactory result. Thanks to the B.E.A. loan, and the use of the application moneys to repay borrowings from the banks (the first call on the loan had not been made at the date of the May " make-up "), the increase in total advances (by £7½ millions) was the lowest in any

month since devaluation. After the very abrupt rises in recent months, some encouragement may perhaps be derived from the fact that the true rate of growth of advances this May was not above what may be regarded as the

	May, 1950 £m.		Change on Month £m.	Change on Year £m.
Deposits	5846.7		+ 3.6	− 25.7
" Net " Deposits*	5648.9		− 14.5	− 40.4
		%†		
Cash	482.0	(8.24)	− 10.8	− 5.1
Money Market Assets	*1735.1*	*(29.7)*	*+ 27.8*	*+ 421.5*
Call Money	537.9	(9.2)	+ 7.7	+ 40.0
Bills	1197.2	(20.5)	+ 20.0	+ 381.5
Treasury Deposit Receipts	364.0	(6.2)	− 38.0	− 672.5
Investments plus Advances	*3140.6*	*(53.7)*	*+ 7.9*	*+ 211.9*
Investments	1502.9	(25.7)	+ 0.4	+ 0.9
Advances	1637.7	(28.0)	+ 7.5	+ 211.0

*After deducting items in course of collection. †Ratio of assets to published deposits.

springtime norm. Even if the whole of the £15 millions of application moneys was used in repayment of advances, the trend in the month can stand comparison with that in May, 1948 (when advances rose by £18 millions) and in May last year (when they fell by some £8 millions after a repayment of about £30 millions out of an issue of gas stock).

The second main influence upon bank deposits in April/May was a substantial reduction in Government indebtedness to the banks, in spite of the fact that the authorities themselves obviously put up a substantial proportion of the application money for the B.E.A. loan. The clearing banks' aggregate holdings of Treasury deposit receipts, money market assets and cash reserves ran down by some £21 millions in the month, whereas in the previous month holdings of these assets had increased by £34 millions.

Hong Kong Sterling Blocked

In the past month restrictions have been placed on the freedom with which Hong Kong residents may use their sterling assets. These restrictions are of particular significance because they interfere with the freedom with which funds are allowed to move, whether for current or capital purposes, within the sterling area. Although Hong Kong remains for all ostensible purposes one of the scheduled territories, the new ordinance makes it a very special member of the sterling area. Accounts and assets belonging to Hong Kong residents have been segregated into two categories: " number one " and " number two " accounts. Number one accounts comprise the accounts of twenty-five banks operating in Hong Kong. It is through these that payments between Great Britain and Hong Kong will in future be canalized. All other accounts and assets are swept into the category of number two accounts, whose availability is now severely restricted. Transfers are allowed from number two to number one accounts, but beyond this, number two accounts may be used only to make regular payments such as insurance premiums, subscriptions, etc., within the scheduled territories.

The object of this move is mainly preventive: to close a potential loophole through which sterling capital might escape into dollars. There is a tolerated

free market for foreign currencies, including United States dollars, in Hong Kong; the United States and Hong Kong dollars have recently been quoted on it at rates giving a sterling-dollar cross rate of about $2.40 to the pound. Since sterling belonging to United Kingdom residents can be readily transferred to a Hong Kong sterling account and Hong Kong sterling then converted through Hong Kong dollars into United States dollars, there was a clear channel through which sterling capital might seek refuge into United States dollars without passing through any illegal transactions. The authorities in London claim that no such escape of capital had recently taken place, and that the new measures are purely precautionary.

German Banking Reforms

THE two salient features of the banking system with which Western Germany was endowed two years ago were the independence of the Bank Deutscher Laender from government control and the exaggerated decentralization of the commercial banking structure. Both these features now seem to be in the course of modification. After a prolonged and heated public debate, carried on against a background of rising unemployment allegedly caused by restrictive central banking policy, the Bonn Parliament is shortly to be presented with a new central banking statute. This statute proposes that the membership of the council of the B.D.L. should be raised from 13 to 15 members by co-opting two Government nominees (representing the Ministries of Finance and Economic Affairs) with power to veto policy decisions of the present members of the council (who are representatives of the regional banks that own B.D.L.'s capital). It is improbable, however, that this change will lead to an immediate change in Germany's austere credit policy. Should the present members of the council find themselves at loggerheads with Bonn, they will still be able to fall back on the support of the deflation-minded Allied Banking Commission—provided, that is, that the A.B.C. does not find its own decisions overruled in turn by its superior, the Allied High Commission. Meanwhile moves are afoot to modify the law under which no commercial bank may maintain branches in more than one State. Subject to the approval of the Allied High Commission, the eleven States of Western Germany are, for banking purposes alone, to be amalgamated into three districts; the number of regional central banks will thus be reduced from eleven to three also. Simultaneously the number of successor banks to the old D Banks is likely to be reduced from thirty to nine.

These impending changes come at a time when a practical element of interest is added to foreign concern with German banking affairs. The Allied High Commission announced last month the first tentative moves towards encouraging foreign investment in Germany. Foreign holders of blocked D Mark balances are now to be permitted to purchase existing German securities without any restriction and, subject to permission from the authorities, will also be able to make loans to companies. The sums initially freed are not likely to be much more than Dm. 170 millions; but it is expected that sterling and dollar creditors—as distinct from foreign holders of D Mark balances—will soon be allowed to accept payment in German currency and use the proceeds for these same broad purposes. Foreigners who do not own any assets in Germany but who wish to acquire D Marks for investment can now do so against payment in acceptable currencies.

Freedom to Inflate

THE paramount economic issue before the electorate last February, we suggested at that time, was whether Britain's economy should in future be shaped rather more than in the recent past by the free forces of the price mechanism or rather more by physical planning and controls. This issue, as we also pointed out, was less clearly a party issue than might at first glance be supposed. There was and is no certainty that a Conservative Government would have the courage to apply the methods of economic freedom with real forthrightness; on the other hand, there was no certainty that a Labour Government would not move towards them, and away from controls. Since then, as housewives and motorists in particular have good reason to know, there has been an important shift in Government policy. Beginning with the dropping of the Control of Engagements Order—the last remnant of war-time powers of direction of labour—the Government has carried through a whole series of relaxations of physical controls. Partly as a consequence of these relaxations and partly by quite distinct decisions—such as the raising of the prices of certain foodstuffs in order to reduce the budgetary strain of subsidies—there has been a distinct swing from specific rationing to " rationing by purse ". Indeed, after the sudden dropping of petrol rationing—that most unpopular of all restraints surviving from the war—the movement promptly became, in the public mind, a " dash for freedom ".

Does all this mean that the Government has had a real change of heart? Has the electoral deadlock not only forced it to keep well clear of the extreme left of the road but also led it to venture across the dividing line and appropriate to itself policies and methods that are to be expected rather from its opponents? And, whatever the answer to these political questions, does the shift of policy mean that all believers in economic freedom should now rejoice? Above all, are these changes to be taken as signs of economic strength and future promise that can be linked with other portents to justify a new confidence about Britain's economic prospect?

To judge from the recent behaviour of Stock markets—both gilt-edged securities and industrial equities—the City and many investors have quickly jumped to the conclusion that affirmative answers ought to be given to some, at least, of these questions. Though many shrewd observers are still keeping their fingers crossed, and take care to put a time-limit on any optimistic views they may voice, there is no doubt that the general mood is more confident now than at any time since the heads-in-the-sand phase of the early post-war. Not all of this new-found buoyancy of spirit is attributable to the moves towards freedom, although it was these moves, and especially the petrol decision, that brought it to the surface. The other influences are partly economic and partly political. Among the former are relief that the post-devaluation rise in domestic prices has been less rapid than had been generally feared; the indications that British goods are competitive in most markets; and satisfaction at the presumed trend of the gold figures. Among the political influences are the City's hopes that a Labour Government with clipped wings will be unable to fly to extremes; it hopes for a continued reprieve from further nationalizations and from further drives against capital and profits. Such influences as these had created a background of optimism; the Government's relaxations brought it rapidly to

the foreground. They must therefore be credited—or debited ?—with main responsibility for the advance in the markets.

It is of particular importance, therefore, that the implications of the new policy should be fairly diagnosed. The heady satisfaction that comes from the freedom to tell the garageman to " fill her up " on a fine day in high summer is not the best preparation for clear thinking about the underlying policy. It is too easy to say, " freedom is good, therefore we must have more of it "; and then to suppose that there is nothing more to be said. The truth is that the sincere believers in the " free " way out of Britain's difficulties have perforce been thinking less of greater freedom for enjoyment than of greater freedom for the natural forces of economic discipline. When the resources available for enjoyment are strictly limited, it is discipline that must come first. And when one speaks of the choice between the methods of planning and the methods of the price mechanism in this context, the question at issue is whether discipline shall be exerted by physical compulsions and rationings or by retrenchment and disinflation.

When the matter is put thus, it is surely at once apparent that the Government's " dash for freedom " is very far from being the result of any conversion to the principles of liberal economics. Nothing whatever has been said about discipline—unless the Government's refusal to grant specific tax reliefs to balance the additional tax yield expected from petrol derationing can be construed as an indirect affirmation of the need for restraint. But if the " free " method of discipline is to be really effective, it requires a disinflation and a supporting retrenchment in Government and private spending sufficient to produce some real mobility in the national economy. There is no sign whatever that the Government is prepared to take the unpopular measures required for such a policy, or that it has any intention of countenancing the increase in transitional unemployment that would almost inevitably result from it. On the contrary, many recent developments—especially the extraordinary pronouncement by the Labour Party Executive on European economic collaboration, and Mr. Morgan Phillips's " party political " broadcast—show that maintenance of the present level and pattern of employment has become even more firmly consolidated as the foundation of policy. In short, any suggestion that there has been a change of heart can be dismissed out of hand. The Opposition need have no fear that the Government will steal its rightful policy; and if Opposition members think that it has already done so, that merely proves either that their own policy was the wrong policy or that their economic reasoning is as muddled as that of the Government itself.

The Opposition's performance in the Finance Bill debate did, indeed, go far to justify this charge of muddleheadedness. It was quite wrong to demand the distribution of the extra yield from the petrol and motor duties, and its insistence on this showed a failure to grasp the basic principle of disinflation that supposedly underlies its policy. There was no reason at all to suppose that the extra yield from these duties would reinforce the disinflationary effect of the budget—even if the Government had not already (but at first unknown to the Opposition) committed itself to roughly equivalent outgoings or reliefs, by the increase in National Assistance rates, the welcome double-taxation relief, and the concession on the new purchase tax on commercial vehicles. It was very questionable, as we argued in these columns at the time, whether the original budget proposals would suffice to keep the inflationary pressures in

the economy from rising, even if the eventual overall deficit were to be no larger than the Chancellor envisaged. For this reason alone, the Government should have been urged to retain any extra yield from petrol to reinforce the budget. There was, however, yet another reason for believing this to be the only safe course. It will be very surprising if the first summer of motoring freedom does not cause a further inroad into personal savings—and not merely for the purpose of spending more on petrol but also because summer joy-riding will present many temptations to other additional expenditure. In a few months' time, no doubt, many joy-riders will face their day of reckoning; the Christmas trade, in particular, is likely to feel the draught. But economies of the kind that are likely to be practised then will be costly for the Revenue. In short, a sober view of the economics of petrol de-rationing suggests that the Exchequer's gross gain will be fully offset, in the balance-sheet of disinflation, by consequential losses in other taxes and in private savings. On top of this, the Government has already given away the gross gain, and its original budget was probably not sufficiently austere.

The inescapable conclusion is that the events of the past few months have perceptibly strengthened the forces of inflation. This strengthening, moreover, comes not only from the immediate probability of increased spending but also from threatened spiral effects of recent price increases. The fact that both these tendencies spring directly from the actions of the Government—and especially from its "dash for freedom"—suggests that although it has had no real change of heart, it has made, none the less, a significant reorientation of policy. It is surely significant that, despite the rising discontent among wage-earners, nothing whatever has been done to reinforce the wage-freeze. Even Government exhortation, formerly so loud and persistent, is now soft-pedalled; and much emphasis has been put on the argument that there never was any intention literally to stabilize wage rates. The term "freeze", it is said, was nothing more than an inaccurate and dangerous invention of the Opposition Press. The whole drift of policy strongly suggests that the Government is now well aware that it has, all along, been fighting no more than a hopeless rearguard action on the wages lines, and that very soon this will have to be reduced to a mere token resistance.

If this is indeed its line of reasoning, it is hard to resist the conclusion that it has been swayed by the arguments of left-wing economists that sustained inflation is a necessary and inevitable accompaniment of sustained full employment. If it wants the one, it must countenance—and even deliberately engineer—the other. There is no disputing the logic of these theories. The only question, if the basic objective of preventing the slightest interference with employment is taken for granted, is how the resultant inflation shall be prevented from reaching dangerous proportions and how the necessary adjustments shall be brought about in a fully-employed economy to keep it reasonably attuned to the shifting pattern of demand. The left-wing intellectuals say bluntly that this must be achieved by physical controls—a line of argument that was even allowed to peep through the broadcast by Mr. Morgan Phillips, already cited, as well as through the party commentary on the Schuman Plan. The Government, however, has to be more circumspect. Whatever its real opinions (and there is no certainty that a majority in the Cabinet would endorse these principles), it knows full well that the electoral prospect makes it quite impossible for it to put such ideas into practice now. Yet the argument about

inflation still stands. If inflation is the inevitable accompaniment of its basic policies, then why should it face great electoral risks by seeking the necessarily unpalatable means of keeping it in check ? Why, moreover, should it not court electoral popularity by a " dash for freedom ", even if that dash means a little more inflation ?

These, it seems, are the real explanations of the shift in economic policy. The Government is taking a short view, and a political view, in the hope of winning votes while the going is good. It is probably not yet fully aware of the economic risks that this change of course may involve for the longer run. It has sought to justify each specific relaxation on the particular merits of the case, and does not seem to have been in the least concerned with over-riding principles and wider consequences. This is especially true of the petrol decision; for, despite the Government's jubilation at the new arrangement with the American oil companies, the fact is that additional petrol consumption is likely in the long run to put almost as great a strain upon Britain's dollar position indirectly as it would have done, much more directly, in the absence of these facilities for paying for American oil in sterling. No doubt it is equally true that if the Government really did perceive the longer-term economic risks of courting popularity by such means as these, it would still be prepared to run them. If it saw its economic problem whole, it would know that it cannot escape from the tightening economic deadlock that its policies involve unless it first escapes from the political deadlock. If it did escape from that, the electorate would soon find that Labour's route inevitably still lies towards controls, despite this present burst of freedom.

For the time being, these deeper implications are concealed from most people, and perhaps even from the Government itself, by the windfalls that Britain and the sterling area are gathering from America's boom. While that lasts, the worst consequences of letting loose the cost-raising elements in Britain's economy will not be apparent, and for a time they may even seem to have been wholly neutralized. Perhaps the Government is arguing that any perceptible American recession would spell disaster for Britain in any case; and that the magnitude of Britain's economic problem then would not be materially affected by the particular level of British costs at the moment it occurred. That may seem to it to be yet another argument for preferring short-run political advantage to long-run economic loss. But, whatever the true explanations, and whether the Government yet realizes it or not, it seems that we are witnessing now the beginning of the end of Crippsian disinflation.

Needless to say, this scepticism about the shift in policy should not be taken as an unqualified disapproval. The trends towards freedom in the domestic economy, especially when taken in conjunction with the wider scope for international competition that will result from the European Payments Union and the associated trade relaxations, may yet put upon the Government a new compulsion to face courageously the issue of economic discipline. But there is no reason yet to assume that it would do so. The truth is that Britain's economic policy is now adrift, without any firm anchorage in logic and principle. In the past the inflationary impetus in the national economy has been restrained —more or less—by the creaking mechanism of control and rationing; which is a logical, if not a desirable, arrangement. But now, it seems, Britain's " free " joy-riding is to be done in a vehicle with fast-failing brakes and an ever-wider throttle. In short, if this is freedom, it is freedom to inflate.

The Planned Neglect of Capital Formation

By Graham Hutton

NOWADAYS, there is surely general agreement upon the prime importance of adequate maintenance and expansion of the capital equipment of British industry and agriculture. The chances of rising standards of consumption, the level of welfare that can be afforded and organized by the State, and the solution of Britain's trade problems—all these, and more besides, depend upon the sufficiency of productive capital outlay. Yet, for all our vaunted planning, and despite the lip-service paid to this topic before and since the war, long-term investment in British industry goes on lagging far behind that in the United States—and there is still no sign of any real change. Momentary-minded as Americans have ever been, they have never yet failed—as every Anglo-American productivity team out of the thirty-five or so that have so far visited the States has reported—to give full consideration to their economic system's needs of productive capital equipment. They have done it as a matter of first priority. Both partners in industry—organised labour and management—realise that rising standards of consumption depend on three basic conditions: first, on more horse-power and mechanical equipment per worker; secondly, on more intensive utilization of such equipment; thirdly (and consequently) on the speediest possible recognition when such equipment is obsolescent and on its prompt replacement by types that are more productive and more economical of human effort.

This American insistence upon high capitalization is emphasized here merely to point the moral for Britain. All that need be said here about its underlying causes is to remark that the range of consumption goods in America has always been more standardized; that mass-production, interchangeability of components, mechanization, research, and the relative size of the machine-tool industry, have all been far greater there than anywhere else; and that America (which has depended but little upon foreign trade since about 1890) has been able to concentrate on standardizing demand in a vast and abnormally growing home market, whereas no West European country has been similarly placed. West Europeans in the twentieth century have depended for their livelihoods far more than America has done on foreign trade and thus on the power of their exports (from beads to bridges, from handkerchiefs to harbours) to suit an infinite variety of habits and tastes all over the globe.

It is sometimes averred, too, that the unpopularity of utility schemes in Britain has shown that public taste in the domestic market cannot be made to conform to any mass-standardized pattern. But, however true that may be at the extremes of the market, there can be no doubt that the more even distribution of incomes, resulting from progressive taxation and social legislation, has greatly widened the scope in Britain—and, perhaps, in West Europe generally—for mass-production, standardization and interchangeability of a whole range of non-fashion goods. In short, there is much scope for high capitalization *à l'Américaine*, with its low unit costs and high labour-efficiency, its high wages but low labour-costs. But, in spite of this scope, the rate, level

and degree of replacement of Western Europe's (and Britain's) productive equipment—and, still more, of its total expansion year by year—have been relatively low, and (in view of the back-log of war-time needs) dangerously low. It is essential to be clear in one's mind why this has happened.

The basic explanation is simply that West European Governments have preferred, for political reasons, to please the broad mass of consumers rather than to give priority to the maintenance and expansion of productive capital. In continental countries since 1945, and in Britain since about 1948, they have done this by permitting or even encouraging ordinary consumers' goods to absorb a rapidly growing proportion of the national resources. They have also done it (as in Britain since 1945) by an indirect and far more rapidly expanding redistribution of the national income in favour of the mass of consumers in the shape of both " welfare-state " services (education, family allowances, health services, pensions, etc.) and, more important, of " welfare-state " durable consumers' goods (administrative buildings, hospitals, schools, houses and all, their ancillary equipment and apparatus, from sinks to spectacles, desks to dentures). It is beside the point to say that these are " all social capital ". Of course they are. They are all good things. But the size of the year-to-year flow of them to their recipients—and, in Britain, it is a planned and rapidly swelling flow—can be warranted and ensured only by a rapid rise in productive efficiency. If the State professes to plan, then the supreme object of its planning should be to determine the proper ratio between (*a*) the flow of new productive capital, (*b*) the flow of what can best be called " welfare capital and services ", and (*c*) personally-decided consumption.

Politically, there is every temptation to warp this ratio in favour of welfare services and personal consumption. Unfortunately, the circumstances in which Britain found herself at the end of the war made it vital that this temptation should be avoided. For in Britain the proportional back-log of productive capital needs was greater than elsewhere. The existing pre-war productive apparatus was generally older in Britain than in Germany or Japan. Britain started off the war with older equipment; then she flogged most of it to death, or kept it on what is euphemistically called " care-and-maintenance "; then lost the most paying, most mobilizable block of her foreign investments—investments that, had they remained available after the war, would have defrayed much of the accumulated cost of capital replacement and expansion. Only in a few industries did productive equipment emerge the stronger for the war.

Meanwhile, two secular developments have enormously extended the potential of consumers' demand. First, Britain's population rose by 6 per cent. between 1939 and 1949. Secondly, " full employment " and other social changes have swelled the " gainfully occupied " to more than 22 millions, compared with some 18½ to 19 millions (inclusive of the " lost million ") before the war. These changes led, in their own right, to the need for a swift increase in productive capital apparatus per worker. It should have been obvious in 1945 that this increase would have to be redoubled if, as the electorate insisted, standards of consumption (privately-decided *plus* State-decided) were to rise, if the burden of defence was to be doubled, if post-war Britain were to pay her costlier way, and if both the yearly hours of work and the hourly intensity of that work were to be sharply reduced by longer paid holidays, shorter basic working weeks, improvements in factory or agricultural conditions, and so on.

On top of all this, a far swifter and bigger increase in Britain's productive equipment was necessitated by the war itself. The war piled on top of these secular capital requirements the need to make good bomb damage, the wear-and-tear and "make-do-and-mend" of multiple shifts, the depletion of inventories and other working capital, and the arrears of normal year-to-year replacements and extensions. These losses had to be redressed before Britain could safely raise its general level of private and public consumption.

Given this situation, it might have been expected that the planning authorities would have bent every effort to speed up Britain's industrial investment programme. In fact, however, they made every effort to limit it. They were hypnotized by the demands that might be exerted on Britain's productive capacity by the piled-up liquid assets of industry, resources soon to be swollen anew by repayments of E.P.T., and other Governmental disbursements. Official policy was therefore directed to damming up these liquid assets. Thus it was that post-war controls, allocations and other regulations postponed, put out of court or disorganized the smooth, speedy and general flow of capital goods to Britain's industries. The vast export drive, of course, added its potent influence to this restraint. Moreover, one other impediment to industrial capital formation made itself felt—an impediment that had not, perhaps, been sufficiently foreseen. The carry-over of the trade unions' restrictive practices from the pre-war days of mass-unemployment to the post-war days of over-full employment often precluded capital improvements that could have been made, or, in those that were made, caused them to be less economical than was planned or even, all too often, made them a source of downright loss.

These war-time and post-war effects upon Britain's capital requirements were most succinctly summarized in Professor Austin Robinson's impressive calculations in the May issue of the *Bulletin* of the London and Cambridge Economic Service.* Mr. Robinson cannot warrantably be termed a "prophet of woe"; yet some of his judgments, viewed in the light of the foregoing *exposé*, have an ominous ring:

> In very broad terms, we may say that the net investment made since the war will by the end of 1950 have done a little more than cover the war damage, the war-time arrears of maintenance and replacement, and the war-time depletion of stocks. At the present rate of investment, we shall not . . . have restored the level of capital per head in industry and public utilities to its pre-war standard until sometime in 1954. It is only thereafter that we shall begin to raise our pre-war standards of capital equipment generally.

Yet the Anglo-American productivity teams visiting America on Britain's behalf continue to report, with the monotony of unanimity, that Britain imperatively needs a higher ratio of labour-saving equipment, of horse-power and mechanical aids per worker than it has ever had before.

Since the war Britain's new capital has mainly gone into welfare-state durable consumers' goods, into the newly-nationalized State services or basic industries, into defence industries and projects, and into governmental and semi-governmental projects overseas. It has gone into housing, hospitals, health service equipment, schools and educational equipment; into coal mines, railways, tele-communications, civil aviation, electricity, gas, etc.; into atomic

* "British Economic Policy, 1945-50," by E. A. G. Robinson, assisted by A. D. Roy.

research, special military equipment, defence industries; and into projects abroad, from sunflowers and groundnuts to oil installations and harbours. Where it has *not* gone, in anything like adequate volume, is into those productive private enterprises upon which most of Britain's home supplies—and all its vital exports—depend. Its distribution since 1945 between State-directed establishments and services—concerns "affected with the public interest", but mainly with the public's interest as consumers—and others can be estimated from the four *Economic Surveys* to have been in the ratio of two for the public and one for private enterprise. On any showing of Britain's post-war needs, that ratio ought to have been reversed.

The Drain on Liquid Reserves

In these first five post-war years the main impediments in the way of industrial investment have been physical controls. Every year since 1945 private industry has been sent to the back of the new-capital queue and kept there, because every other claimant on the limited home supply has been preferred by the State. Now that physical controls are disappearing, however, a new factor has emerged. Industry is being freed from control over the use of its liquid reserves just when they themselves are nearing exhaustion.

It is not intended to dilate on this subject here; the financial problem of ensuring the necessary distribution of monetary savings is quite distinct from the prior problem of ensuring that sufficient saving does in fact take place. On the financial aspects, reference may be made to two invaluable studies by accounting authorities*, and to an illuminating article in a recent issue of *The Economist*.† These studies bring out with startling clarity how far the war and post-war inflation—the real domestic purchasing power of the £ has fallen by 20 per cent. in the five post-war years alone—has aggravated the problem of industrial capital.

First, the unceasing inflation has meant that the rapidly growing needs of industry for more working capital (write-up of inventories and work-in-progress, rises in labour and material costs, in fuel and power and so on) have tugged away funds that would otherwise now be usable for the proper maintenance and expansion of fixed productive equipment. Secondly, greatly increased costs of new equipment, high taxes on corporate income and on profits, and—above all—Inland Revenue allowances for depreciation based upon historic costs have combined to slow down the re-equipment of productive industries, just when such re-equipment should have gone ahead faster than ever in our history. The normal process of self-financing of new equipment by ploughing back profits has been reduced below the level appropriate to our post-war inflationary situation. This has been done in order to give the Government tax-funds from which to increase State-welfare for consumers, to finance other "non-productive" burdens (such as defence), or—if, for "capital" purposes—then to give first priority to projects of "social capital" or to nationalized basic industries and services.

The upshot of all this has become more and more evident. Since 1948-49 the accounts, and the explanations by the responsible officers, of most of

* Professor Baxter's analysis of accountancy in an inflation in *The Accountant*, June 4, 1949; and Mr. A. Stuart Allen's presidential address to the Society of Incorporated Accountants, May, 1950.

† June 10, 1950, p. 1286: "The Strain of Finance".

Britain's leading industrial corporations have constituted an impressive collective warning. One cannot study the reports of, say, Shell, Dunlop, Cunard, Levers, I.C.I., among the " big fellows "—or, among " the smaller fry ", those of the numerous, competitive high-quality textile, leather, and other exporting firms—without seeing the danger-signals of tight-working capital, flattening out or falling profits-curves, and still-rising costs and selling prices. Britain's post-war inflation has been milking the privately-owned capital-kine, whether they were personal estates at death or the undying " estates " of corporations. But there is still, after five years, no proportionate, new, and more productive State-owned equipment to show for all this. Spread over the whole of Britain's potential productive capacity, and over the three most recent of the five years of our " recovery programme ", the very dubious figure of a rise of output per industrial worker of some 5 to 6 per cent. comes down to 2 or 3 per cent.—and that only if the rough-and-ready official figuring can be assumed to be precise. In view of all the inflationary, fiscal, administrative and other difficulties, the wonder is that Britain's productive industries have been able to be as efficient as they have been. The wonder is that they have kept their selling prices as low as they have, and have not just copied the governmental authorities in giving up the struggle and paying any bill, of whatever size, whenever presented. But from the broader viewpoint of the public welfare the results are as ominous as they ought to be disillusioning.

Implications for the Future

The implications of this post-war politico-economic process in Britain, both in industry and in the field of strict finance, are important. Many people—and by no means all of them Socialists—were urging, as much as 20 years ago, broader governmental responsibility for, and broader direction over, the course of investment. Even then, we were fully aware of Britain's peculiar dependence on the degree of capital formation. But what we have had to witness in the name of " controlled investment " since the war ended is frankly alarming. In cold logic, if political consequences are for the moment ignored, there is something to be said in the name of thoroughness for a " Capital Control Committee " that is totalitarian: that controls what all firms do with their accounts, assets, etc., in what amounts to a Communist framework of society. In such a framework the Government assumes full control over, and responsibility for, not merely the costing and pricing in the country's numerous separate productive (or " service ") units, but also the various financial institutions that minister to the needs of production. Such a Government would in all probability do away with, or have to do without, any voluntary private individual savings; it would have to secure its capital requirements by forcing involuntary " savings " from groups of worker-consumers (by rationing down to lower standards), and/or by including in the accounts of some or all production-units a " loading-charge " that would enter the final selling-prices, and would thus also secure " savings " from the domestic or foreign consumers of the products.

In post-war Britain we have happily not proceeded thus far into the economics of control. We have, however, slid or lapsed or muddled into a position in which savings are part-voluntary, part forced; in which a great portion of the inflationary ploughings-back by productive industry—which

ought to be used to maintain and increase capital—are sequestered by the State for purposes that, in the end, merely increase current consumption; in which personal savings are fast becoming, on balance, a negative quantity; and in which Budget " surpluses ", raised in the good years of inflationary full employment, are not used to increase the country's productive equipment, but chiefly to swell its stocks of maintainable consumers' durable goods.

In the face of all this, the function of Britain's existing Capital Issues Committee is merely a small and wholly mechanical part of a much bigger—but hitherto untackled—task. The prior task, as has been emphasized, is first to pursue such an economic policy as will ensure the requisite real savings. But, even if that were done, there would still be the now immensely difficult task of ensuring the proper distribution of financial resources of the right kind. The need is to ensure the steady flow of savings of all kinds, for all purposes, in their proper proportions, into their proper destinations. The defining of " proper " here is a fit subject for examination by Government authorities, politicians, business leaders, trade union leaders, economists, etc. There is rightly room for much dispute and argument. But there is scarcely room for argument over our present situation, in which neither the Government authorities and organised labour supporting it, nor the Opposition and " business " supporting it, have yet published any assessment of what Britain's requirements of *productive* capital would be over, say, the next five to ten years, on a given set of assumptions about defence, hours of work, productivity, etc.

Instead, we are treated to the spectacle of Britain's still privately-owned banking system being a main provider of the extra working capital made necessary for industry by inflation, while the State authorities (now armed with all powers) " request " bankers to guard against inflation by scrutinizing advances more carefully. We witness what may be, with the encouragement of the State, the beginnings of something resembling the " industrial banking " of the older Germany or America, leading to a dangerously close identification between the cyclical fortunes of business and those of banking and finance. We see frictions and distortions in the banking system, and in the markets for new capital, caused by the strange accounting and financing now rendered necessary in industry by the cumulative effects of a long inflation. We see short-term financing—even, in some cases, of long-term equipment—becoming long-term financing as a result of " revolving credits ". We find, in sum, an odd hybrid system of securing and distributing capital in Britain to-day. It does not secure enough; and it distributes it largely to the wrong destinations.

From now until 1952 and thereafter, Britain faces serious economic changes, perhaps convulsions, demanding abrupt adaptations to the changing demands of world markets. To take but one example, the now rapidly vanishing Marshall Aid may be transformed after 1952 into direct aid to India and the under-developed lands hitherto nourished indirectly by American aid through Britain (via the unfreezing of sterling balances). Britain's dependence on the trade winds blowing from abroad is greater, not less, than ever it was: the course of the 1949 crisis and the 1950 boomlet—which is bemusing many observers to-day—should be a serious warning to everyone. It is later than we think; yet not too late, perhaps, to make sure that we remedy past deficiencies. But we must understand that a not-so-austere austerity can be a good investment, and we must adequately equip ourselves to fulfil the numerous commitments we have made to our own and to other peoples.

Report on Exchange Restrictions

IT is right and proper that members of the International Monetary Fund should occasionally be reminded of the vows they took when they ratified the Bretton Woods agreement. In subscribing to the articles of the Fund, all member countries agreed that restrictions on foreign exchange transactions for current purposes are undesirable in principle.

It is true that the articles of agreement, even though drawn up in the optimistic atmosphere that enveloped the Allied Nations in the concluding and victorious stages of the war, were sufficiently realistic to see that a complete abandonment of exchange restrictions would not be possible when the International Monetary Fund came into operation. The experts concerned therefore agreed upon a transitional period for post-war adjustments during which members might, without approval by the Fund, retain exchange restrictions on their current international payments, adapt them to changing circumstances and—if their territory had been occupied by the enemy—even introduce new restrictions. These transitional provisions, however, were definitely to be regarded not as a norm but as a temporary though necessary aberration from grace. Members seeking the protection of the transitional clauses were required to " have continuous regard in their foreign exchange policies to the purposes of the Fund; and as soon as conditions permit . . . take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the maintenance of exchange stability. In particular, members shall withdraw restrictions . . . as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund ".

These matters were not to be left to the sole discretion of the members themselves. The International Monetary Fund was enjoined to issue, not later than three years after it began operations, a report on such exchange restrictions as were still applied by its members, and to repeat this report annually so long as the restrictions remained. The first of these documents has recently been published in Washington. It provides a comprehensive review of exchange restrictions applied throughout the widespread membership of the I.M.F. More important than this valuable and objective description is the general commentary given in the report on the problem of exchange control. In addition, some advice is given to members on the way in which an advance towards complete freedom of current transactions and effective convertibility of currencies for current operations will be best and most quickly achieved.

The countries that decided not to avail themselves of these transitional arrangements when the Fund began operations on March 1, 1947, made a rather curious assortment. They were led, of course, by the United States, but the other four free exchange countries were scarcely those best qualified to exemplify the virtues of fully convertible currencies. They were El Salvador, Guatemala, Mexico and Panama. These countries, of course, are effectively in the dollar area and whatever may be thought of the stability of their domestic finances, the link between their currencies and the U.S. dollar is unmistakable. A number of other Latin American countries are shown in

the report to be extending considerable freedom in their current payments. They are Cuba, the Dominican Republic (where for a long time U.S. dollars were the only legal tender), Honduras (where foreign payments are subject to licences, but these are freely granted), and Venezuela (which applies preferential exchange rates for certain produce but otherwise has no quantitative exchange restrictions). The group of member countries that have virtually abandoned exchange restrictions has, however, found its most notable recruits in Belgium and Luxembourg. These two are the only member countries that, at the end of the war, were applying severe exchange restrictions but have since made conspicuous advances toward complete convertibility. In both of them restrictions on certain dollar payments continue, but they have been virtually abandoned for current account operations, and generous treatment is accorded even to capital transfers to the dollar area. To complete the tale of " the elect " it should be mentioned that the currency of French Somaliland has been divorced from that of the rest of the French franc area and has been made fully convertible into U.S. dollars.

For the rest, the I.M.F. report tells a chequered tale. In some countries there has been a relaxation of controls, but in others there has been a certain amount of backsliding; by and large, the picture as portrayed by the I.M.F. is tinged with signs of disappointment. The references in the report to developments in the United Kingdom are purely factual. The I.M.F. draws particular attention to the see-saw movement with which Britain has been compelled to pursue her exchange control policy since the war. At the end of hostilities the multilateral use of sterling had virtually disappeared; but from 1946 British policy " consistently aimed at extending the transferability of sterling at least for current transactions ". The report notes the various steps by which this policy was put into operation—the introduction of the transferable account system, the transferability of such sterling into American currency, and the brief phase of full convertibility for sterling. Then come the steps backward—the suspension of convertibility, the removal of certain countries from the transferable account group and the drastic cuts in hard currency imports that preceded and followed the devaluation of sterling. On the other hand, says the report, " the desire to re-establish sterling as a medium for international settlements has led to a constantly growing extension of multilateral payments in sterling allowed by administrative action of the Bank of England ".

In its analytical passages, the report classifies exchange restrictions under three headings. The first is the " Quantitative " type, comprising restrictions that limit foreign payments by means of quantitative licensing or actual prohibition; the essential element of these restrictions is that they are applied wholly at the discretion of the authorities, a discretion that can be utilized arbitrarily and thus can be a means of discriminating between one country and another. The second type is termed " Cost restrictions ", where the determining factor is the cost of foreign exchange operations. Under these restrictions the only arbitrary division of the overall demand for foreign exchange is the segregation of international payments by transactions, currencies or means of payments into a number of categories to which different rates of exchange are applied. Thirdly, there are composite restrictions where both discretionary action on the part of the authorities and the cost of foreign exchange transactions play a part in determining how much of the total demand

for foreign currencies is to be satisfied and how much is to be eliminated. There are innumerable variations of each of these main types. In the United Kingdom, for example, the restrictions are quantitative. They are exercised through import licences required for imports and exchange permits required for non-trade payments to any country outside the sterling area. Once the imports have been licensed, exchange is granted automatically.

In some countries the position is complicated because exchange restrictions serve both exchange control and fiscal purposes. Where exchange taxes and differential rates are a form of direct revenue to the Governments concerned, the problem of replacing them by other taxes may present difficulties. The I.M.F., however, remains unsympathetic to the arguments of the countries concerned. It points out that although the use of exchange restrictions for tax purposes may be the outgrowth of long historical tradition, the articles of agreement do not sanction them.

In envisaging the road to relaxation of exchange control, the report points to three ways in which the objective of complete convertibility can be approached. Restrictions can be removed progressively by specified categories of international transactions, or by specified foreign currencies, or by certain means of international payment. The first of these categories would include relaxation of exchange restrictions upon the import of non-essential goods, the removal of outright prohibitions of imports of certain types of commodities, the progressive elimination of differential rates and other measures applied in a nondiscriminatory manner. The extension of open general licences for imports into Britain is a typical example of this form of relaxation.

The second way has been attempted in efforts made to relax restrictions by specified currencies, favouring payments in soft over those in hard currencies. This can be done under bilateral trade and payments agreements and by the formation of currency areas and regional payments arrangements. The proposed European Payments Union, which will give all Western European currencies complete transferability within Western Europe, is a typical instance of this particular approach towards the ultimate goal of free convertibility. The I.M.F. report does not go out of its way to give any unqualified blessing to arrangements of this kind; it merely restricts itself to the non-committal statement that " the Fund is giving close and continuous study to the implications of these methods of relaxing restrictions, especially with respect to their effect on the progress of members toward removal of restrictions on a global basis ". The third method of advance towards decontrol of exchange is the removal of restrictions from certain specified means of foreign payments such as foreign and domestic bank notes. A number of countries, including Belgium and Luxembourg, have taken this step within the last few months, allowing their own bank notes to enter and leave the country freely, thus ensuring that they are never quoted abroad at a discount on the official rate of exchange. This, however, is a step that can be taken only at a comparatively advanced stage on the road to convertibility. It flings the door wide open to the export of capital and is therefore a development that must be postponed until the country in question is prepared to waive all restrictions on capital movements.

Under the transitional provisions of the I.M.F. agreement, maintenance of exchange control by members is permissible only if the members concerned are in difficulties on their balance of payments. The I.M.F. report notes, however, that some exchange restrictions are primarily inspired by quite other

considerations, notably the effort to shelter special sectors of the domestic economy, the desire to subsidize certain exports, and by other protectionist objectives. Only the countries concerned, says the report, can prune out these objectionable features, and thus confine their restrictions to the " justifiable " purpose of correcting balance of payments deficits. Where balance of payments difficulties are the sole reason for maintaining exchange restrictions, each member of the I.M.F. is called upon to take the appropriate measures of domestic policy to correct the disequilibrium and thus to hasten the day on which exchange control can be dispensed with. The I.M.F. is ready to give advice to help its members to decide on the right measures, but is concerned never to overstep the point beyond which it would be intervening in their domestic affairs. On this matter the relations between the I.M.F. and its members reach their most sensitive point; the principles of conduct are here particularly difficult to interpret. The report points out that " every member has an obligation to observe restraints in its credit and fiscal policies, if the par value of its currency is to retain its economic justification ". The Fund has urged member countries to practise restraints in their domestic policies in order to avoid inflation and its adverse effects on their payments position. It would be highly instructive for all concerned if the advice of this character given to Britain from 1947 onwards could be published. In this context it is remarked that the views of the Fund " are not to be interpreted as an invitation to members to embark on damaging deflationary policies leading to a severe decline in employment ". Indeed, the importance of a high level of employment is mentioned in the Articles of Agreement and is constantly borne in mind in the Fund's advice to its members. The report declares, however, that " in seeking to obtain and maintain satisfactory levels of employment, members should not lose sight of the necessity of safeguarding monetary stability and of arriving at acceptable international balance ".

On this delicate issue, of course, the Fund's function must remain purely advisory. The experience of 1949 showed that even its function as a determinant of correct exchange parities must be largely passive—limited to the acceptance of suggestions for changes in parities made by its members. This is not an issue where countries will readily accept a delegation of sovereignty. It is an interesting paradox that such a delegation was in effect readily made in the past to an impersonal, uncodified and wholly intangible gold standard system, but will not be made to the I.M.F., even though it stands for a far more elastic and temperate system than the gold standard.

The Fund is feeling its way in the gradual establishment of a new system of international co-ordination and co-operation in the monetary field. It may be disappointed with the progress made so far in removing the trammels of exchange restrictions with which most of its member countries ended the war. At present, however, the progress is in the right direction. The devaluations of 1949 have helped to loosen up the rigid structure of exchange controls and are making part of it increasingly unnecessary. The I.M.F. may perhaps overstate the contribution that it has itself made in inculcating the virtues of convertibility among its members. But this reminder, in the first annual report on exchange restrictions, that member countries have affirmed their intention to work together towards the multilateralization of international payments and the elimination of exchange restrictions that hamper world trade, should do something to encourage the good work.

American Monetary Policy since the War

II—The Federal Reserve's Fight for Stability

By E. Victor Morgan

THE first article in this series, which appeared in THE BANKER last month, surveyed the present banking and debt structure in the United States. It pointed out that America is an economy with a high ratio of deposits to national income, a highly liquid banking system and very low interest rates; that there is a large public debt, much of which is nearing maturity, so that the Treasury has a strong interest in the maintenance of low rates and buoyant conditions in the Government securities market; that there is a very large number of independent banks differing widely in strength, liquidity and the attitudes of their managements; that much of the public debt is held by the banking system, and that Government securities form a large part of the total assets of the commercial banks. The fundamental problems of the new monetary policy were therefore stated to be the size of the fluctuations in security prices that it is safe and desirable to allow, and the methods of getting the greatest possible stimulus or check to spending from a moderate change in interest rates.

The object of this second article will be to survey the operations of the Federal Reserve authorities since the war and the economic background against which they have been working. The war produced in America the familiar pattern of inflation in a partially controlled economy. Unemployment virtually disappeared, the money value of the gross national product and bank deposits more than doubled, wholesale prices rose by about 35 per cent. and retail prices by about 30 per cent. The rise in prices would have been greater had it not been for controls; the existence of these controls created a reservoir of pent up purchasing power in the hands both of business firms and individual savers; these involuntary savings were held in a highly liquid form either in bank deposits or Government securities. Reconversion was extremely rapid and unemployment remained low (between 3 and 4 per cent. of the civilian labour force until the end of 1948), but, with the relaxation of controls, prices rose sharply. In the two years from the middle of 1946 to the middle of 1948, wholesale prices rose by 55 per cent. and retail prices by 40 per cent. The halting of this inflation was the objective of monetary policy from the end of the war until the autumn of 1948.

At the same time, however, the United States was still committed to the policy of "maintaining orderly conditions" in the Government securities market. The roots of this policy go back to 1937. In March and April of that year, the Federal Reserve bought bonds in order to check a fall in prices, and its Annual Report stated that: "Since the prices of long-term bonds are subject to greater fluctuations than those of short-term obligations, the increased importance of bonds as a medium of investment for idle bank funds makes the maintenance of stable conditions in the bond market an important concern of banking administration".

Upon the outbreak of war this policy was carried still further by the agreement to maintain the structure of interest rates actually ruling at the end of 1941. As part of this policy, the Federal Reserve set a buying rate for Treasury bills corresponding to a yield of ⅜ per cent., offered advances on Government securities to all banks at par and gave a special preferential rate of ½ per cent. on fifteen-day advances backed by short-term Government obligations. More important, however, was the fact that the Federal Reserve stood ready to buy in the market any security the yield on which was tending to rise above the agreed level. Among the reasons for this policy given by Chairman McCabe to the recent Douglas Committee were the desires "to encourage prompt buying of securities by investors who might otherwise have awaited higher rates" and to keep down the cost of war-time borrowing. Its disadvantages were fully realized. The Federal Reserve was involved in large purchases of securities, which added to the reserves of the banks and the liquid assets of the public. Moreover, the policy produced the anomaly known as "playing the pattern of the rates". With the Federal Reserve pegging their prices, bonds became almost as liquid as bills, though bonds paid 2½ per cent. and bills only ⅜ per cent. Furthermore, as they neared maturity, bonds rose above par so as to bring their yields into conformity with the lower short-term rates. Thus banks and other institutional investors had an incentive to sell short-term securities to the Federal Reserve and buy long-term ones, taking advantage of their higher yields during the early part of their life, and selling them at a profit later. The practice was partly restrained by the issue of bank-restricted bonds, but it continued to plague the authorities until well after the end of the war.

The Federal Reserve thus entered the fight against post-war inflation with all its major weapons blunted. Reserve ratios could not be raised significantly as they had been set at almost their maximum as far back as 1941; discount rate was ineffective as discounts formed only a trivial proportion of Federal Reserve credit; and open-market operations were stultified by the agreement to maintain the existing structure of interest rates.

In these circumstances, debt retirement became, in the words of Chairman McCabe, "the dominant anti-inflationary factor of the post-war period". During 1946, the Treasury redeemed $19 billions of maturing securities, chiefly by running down the very large cash balance with which it had begun the year. A large part of these securities was held by commercial banks, and this depletion of their most liquid "second line" assets made them less willing both to "play the pattern of the rates" and to sell securities to the Federal Reserve in order to increase their reserve balances. From the beginning of 1947 debt retirement, on a smaller scale and now financed out of a budget surplus, was largely confined to retirement of securities held by the Federal Reserve. To quote again from Chairman McCabe's statement to the Douglas Committee: "This policy, which resulted in a direct drain on bank reserves and on bank liquidity positions, was continued into early 1949, and was by far the most important and effective measure of restriction on inflationary credit expansion".

The impact of the debt retirement programme was, however, greatly reduced by continued support of the Government securities market at very low interest rates. The banks continued, though more reluctantly than before, to sell securities in order to be able to meet the rising demand for loans, and

non-bank holders sold in order to finance their own spending programmes. The retirement of $19 billions of debt in 1946 reduced Federal Reserve holdings by only $1.0 billion. The further retirement of $6.3 billions in 1947-48 produced a temporary decline of about half that amount in Federal Reserve holdings, but by the end of 1948 they were back practically to where they had been two years before. Meanwhile, there had been a substantial influx of gold, so that reserves continued to rise, though at a rather slower rate than during the war. With the continued growth of deposits, excess reserves were somewhat reduced, but banks still retained a comfortable margin above their legal minima. The average rate on commercial bank loans declined to barely 2 per cent. in 1946 and was only a little higher in 1947. Furthermore, the habit of " playing the pattern of the rates " was tending, like all such operations, to close the price gap which gave rise to it; this closure could not come from a rise in short-term rates so, with the cessation of new long-term borrowing, it came through a fall in long-term rates. In the spring of 1946, the yield on 15-year bonds dropped to barely 2 per cent. The best that can be said for the debt retirement programme is that it made these inflationary forces less strong than they would otherwise have been. It did not, and could not have been expected to, reduce actual bank reserves, but it did deplete their stock of other liquid assets and so, presumably, put some brake on expansion.

The Federal Reserve sought all possible means of reinforcing the debt retirement programme. At the beginning of 1946, margin requirements for loans to the stock exchange were raised from 50 to 100 per cent., and in April the preferential rate to banks for advances backed by Government securities was withdrawn. In July, 1947, after prolonged negotiations with the Treasury, short-term interest rates were allowed to rise. The Federal Reserve bill buying rate was withdrawn and the yield on Treasury bills rose to 1 per cent. at the end of 1947 and to nearly 1¼ per cent. during 1948. The Board suggested, in its Annual Report for 1945 and on several later occasions, that it should be given powers to require member banks to hold special reserves in Government securities in addition to their normal balances with the Reserve System. This proposal was not accepted, but, in August, 1948, Congress gave emergency powers to raise ordinary reserve requirements above the normal maxima.

Meanwhile, there had been interesting and significant developments in the securities markets. The rise in short-term rates had led to some switching by banks from long-term to short-term securities. More important, non-bank investors, many of whom must have been pressed for funds to complete their post-war capital plans, began to unload large amounts of bonds on to the market. In the autumn of 1947, bond prices began to decline; the Federal Reserve reduced its support prices somewhat, but continued to buy all issues at or slightly above par. It found itself involved in very large transactions, as a net result of which holdings of bonds more than two years from maturity increased by $6.6 billions during 1948. The effects of these purchases were offset partly by sales of short-term securities and partly by increases in reserve requirements; in February and June the Federal Reserve exhausted the last of its ordinary powers in this direction and, in September, it exercised a part of the emergency powers granted the previous month. This experience was a further illustration of the difficulties of a monetary policy fettered by the determination not to allow Government securities to fall below par. The man who has a bond which he can sell without appreciable sacrifice does not need a

bank loan; hence, even if the expansion of bank credit is checked, there is the danger of the check being largely nullified because the public simply sells securities instead of taking loans.

By the end of 1948 it was apparent that inflationary pressure was abating. The Federal Reserve authorities decided to take advantage of this in order to increase their control over the monetary system while, at the same time, avoiding any action which might turn a healthy recession into a severe depression. In March, 1949, margins for stock-market loans were again reduced to 50 per cent.; in May and June reserve requirements were reduced and on June 30 the emergency powers expired; in August further reductions were made, bringing requirements, for the first time since the war, appreciably below the legal maximum. This reduction had the double advantage of giving present relief to the banks and giving the Federal Reserve greater freedom of action in case inflationary tendencies re-appeared in the future. At the same time, the Reserve authorities took advantage of renewed buoyancy in the securities market to reduce their holdings, especially of the longer-dated issues.

These steps produced an appreciable relaxation in credit conditions. There was a slight decline in the average rate of interest on bank loans, and some increase in their volume; the banks added $4½ billions to their holdings of Government securities and over $1 billion to their other investments; there was a marked rise in Government security prices and this was reflected in better conditions in other sections of the stock-market. No one would claim that these steps alone checked the recession—a more important influence was a highly opportune, though partly fortuitous, change from a surplus to a deficit

DEPOSITS AND ASSETS OF U.S. COMMERCIAL BANKS

($ billions)

	End of calendar years					
	1941	1945	1946	1947	1948	1949
Deposits	71.3	150.2	139.0	144.1	142.8	143.9
Cash items	26.6	34.8	34.2	37.5	38.6	34.2
Loans	21.7	26.1	31.1	38.1	42.5	43.3
Government securities	21.8	90.6	74.8	69.2	62.6	67.3
Other investments	7.2	7.3	8.1	9.0	9.2	10.3

in the Federal budget—but they were certainly moves in the right direction, and they demonstrated that the banking system retains a high degree of sensitivity to changes in Federal Reserve policy.

It would be easy to minimize the achievements of monetary policy during the past five years, but to do so would be to ignore both the exceptional difficulties with which the Federal Reserve has been faced and the real progress which has been made towards greater flexibility. Two recent committees investigating American monetary experience, the Douglas Committee and the Committee for Economic Development, were both emphatic in recognizing the importance of monetary policy for the future, In the words of the former: "We recommend that an appropriate, flexible and vigorous monetary policy, employed in co-ordination with fiscal and other policies, *should be one of the principal methods used to achieve the purposes of the Employment Act*".*

At the same time there has been considerable criticism of past policies. One of the main grounds for this was that the Federal Reserve has been too

* Douglas Committee Report on "Monetary, Credit and Fiscal Policies," p.1. (Author's italics.)

much influenced by the Treasury with its obvious interest in maintaining the lowest possible yields on its securities. It was revealed in evidence before the Douglas Committee that Treasury opposition delayed both the abolition of the preferential rate for advances on Government securities in 1946 and the rise in short-term rates which eventually took place in 1947. On this point, the Committee is emphatic that the initiative should rest with the Federal Reserve, and recommends that Congress declare by joint resolution, " that the primary power and responsibility for regulating the supply, availability and cost of credit in general shall be vested in the duly constituted authorities of the Federal Reserve System, and that Treasury actions relative to money, credit and transactions in the Federal debt shall be made consistent with the policies of the Federal Reserve ".

The crux of the problem, however, is the size of variations in interest rates and security prices that is desirable. All the authorities recognized the disadvantages of a rigid support policy. Chairman McCabe, while staunchly defending the action taken in the past, pointed out that, " It needs to be recognized in the long run, however, that interest rates perform an economic function. . . . To keep down the rate of interest by making credit freely available at a time when capital demands exceed current savings has an inflationary result ". A former Chairman, Marriner S. Eccles, put the point much more strongly: " So long as the Reserve System is expected to support the Government bond market, and to the extent that such support requires the System to purchase marketable issues, whether sold by banks or others, this means that the System is deprived of its only really effective instrument for curbing over-expansion of credit ". The Douglas Committee, though favouring low interest rates in the long run, recommended that: " The freedom of the Federal Reserve to restrict credit and raise interest rates for stabilization purposes should be restored, even if the cost should prove to be a significant increase in service charges on the Federal debt ".

Some of the difficulties which made the authorities reluctant to raise rates in the early post-war years have now been diminished. The reduction in the volume of marketable issues somewhat eases the position of the Treasury, while the decline in the banks' holdings of long-term issues makes them less vulnerable to a fall in bond prices. In this connection, it is interesting that, although concern for the banks has always been given as the prime motive for the support policy, some prominent commercial bankers have recently advocated higher rates.

There is general agreement on the need for more flexibility in rates, but the degree of fluctuation envisaged is still only moderate. Thus the Douglas Committee stated: " A part of the technique of central banking is to avoid excessively harsh restrictive measures. Fluctuations of the magnitude that occurred after World War I, when long-term Governments fell to about 80, serve no useful purpose ". It is generally believed that the American economy requires low rates in the long run, and the maintenance of a fair degree of stability is a very important factor in the establishment of low average rates. A sharp decline in security prices destroys public confidence in the maintenance of a low yield structure and makes it extremely difficult to re-establish low long-term rates when desired. This important argument has not been developed in great detail, but is certainly implicit in a number of general statements by Federal Reserve authorities.

How, then, can moderate fluctuations in interest rates be translated into an effective influence on the rate of spending? Recent experience has indicated several policies that tend in that direction. One important step is the reduction in the volume of marketable issues in the hands of private holders, a reduction which reduces the danger that businesses may sell securities in time of credit stringency as an alternative to taking bank loans. A substantial reduction in privately held marketable debt was achieved when private holders made large sales to the Federal Reserve in 1947-48; the Treasury's present policy of substituting savings bonds and special issues for marketable securities is a continuing move in the same direction. The reduction of bank holdings also increases the control of the Federal Reserve by making banks less willing to sell securities to get funds with which to increase their loans. Bank holdings, however, remain substantial, and they could not be reduced too far without impairing the flexibility of the system in the other direction. A relaxation of credit is often not accompanied by an immediate expansion in the demand for loans, even at somewhat lower rates; if the banks ran down their security portfolios too low now, they would naturally take advantage of the relaxation of credit at the offset of a recession to buy securities, and the primary effect of credit expansion would be on the securities markets.

By simultaneously reducing its holdings of Government securities and its reserve requirements, the Federal Reserve regains flexibility both for its market policy and for its reserve policy without exerting any net inflationary or deflationary pressure. During the past year substantial progress has been made in this direction; the Federal Reserve has sold securities when it could do so without depressing prices unduly, and presumably the policy will be continued as opportunity arises. As was shown in these columns last month, variations in reserve requirements are a very powerful means of influencing both the ability and the incentives of member banks to make loans, and there is no doubt that it will remain the major instrument of Federal Reserve policy. Finally, the Reserve System can employ some selective methods of control; the variation of margin requirements can be used to influence the stock markets; the policies of the agencies engaged in home-purchase finance can have a similar influence on the market for real estate; and the Reserve authorities hope to see a restoration of their war-time powers over consumer instalment credit.

There is little doubt that interest rates will be more flexible in the future than in the recent past, but equally there is little doubt that fluctuations will still be small by the standards of classical monetary policy. Both for the finance of the public debt and for the maintenance of low average rates in the long run, it is necessary that this should be so. The Federal Reserve has been experimenting, and presumably will continue to experiment, with a variety of techniques for extracting the greatest possible effect from the smallest possible fluctuations. It seems likely that those mentioned in this article will continue to be used, and doubtless others will be devised in the future. These experiments should prove of absorbing interest to all countries which hope to maintain stability without an all-embracing framework of state control, for the weaknesses of the new monetary policy are similar in all of them, yet none of them can afford to forgo the stabilizing influence that a wise monetary policy can exert.

British Industry and the Schuman Plan

Much has been heard in the past month about the political aspects of the Schuman project for pooling European steel and coal industries; and this debate has shown wide disagreement about what the project is and what it ought to be.

While discussion remains at this level, little has been heard of the reactions of the British industries most closely concerned. THE BANKER, *which made its own attitude clear in an editorial note last month, is therefore glad to publish an article by a special correspondent who considers the proposal from the angle of the British steelmaker and in the light of pre-war experience in the steel industry.*—ED.

By A Special Correspondent

TWO points need to be grasped at the very outset of any discussion of the initial reactions of British industry to the still nebulous Schuman Plan for the pooling of the steel and coal industries of Western Europe. The first is that, whether Britain joins in the proposed pool or not, British heavy industry is bound to be affected by most of the influences—and all the major ones—that affect heavy industry on the Continent. To believe—as the Labour Executive's memorandum on " European Unity " appeared to imply—that a fall in industrial activity on the Continent can be insulated from Britain is to behave like an ostrich and bury one's head in the sands of complacency. The maintenance of full employment here does not depend on the degree to which Britain's planners can keep aloof from the continental influences, whether of *laisser-faire* or " supra-national " planning; it depends on the maintenance of a high level of world demand—and, for the moment, on dollar aid.

The second point that must be grasped if the issue is to be faced realistically is that the problems facing heavy industry in the modern world economy are not capable of easy solution. All experience since the first world war has bred in the British industries concerned a conviction that no long-term solution—satisfactory either to consumers or to those engaged in heavy industry—can be found by the route of unbridled free competition. The problems of these industries must be tackled with foresight, co-operation and common regard for the necessity of maintaining reasonable stability of production and prices; in other words, they must be tackled by a co-ordinating authority of one kind or another. The great virtue of the Schuman Plan proposal is that it has given a new impetus to the solution of these problems and has provided a political climate in which the continental countries can again search for a way out of the difficulties that they now face.

These difficulties, which are inseparable from the operation of any heavy industry, have been aggravated in Europe by the incidence and the after-effects of two world wars. The division of Europe into small national units after the first world war, with so-called ethnic rather than economic boundaries, had devastating repercussions on steel and coal production in Europe. Luxembourg, Lorraine and the Saar were cut off at one stroke from direct access to Ruhr coke. Germany was separated from Lorraine as an ore supplier. On

top of these difficulties of supply, chaotic conditions were created in the market for steel products. The European steel cartel, which was set up in 1926, tried to restore order in this confusion, and it achieved some measure of success. It has been blamed for restrictionism and high prices; but in the early years it did make investment in the continental steel industries a reasonable risk and so encouraged the modernization of plant, whereas in Britain the industry was so undermined by foreign competition that by the thirties it found itself ill-equipped, uncompetitive and on the verge of collapse. Later, the threat of high British tariffs enabled the British steel industry to negotiate a working agreement with the cartel, and thus to create the conditions under which it was once again possible to secure investment in the steel industry in the United Kingdom, and under which the first part of the development plan that is now showing fruit was put in hand. British steelmakers therefore believe that the lessons to be learnt from the 1930s by those who are preparing the details of the Schuman Plan are, first, that it is essential in an industry such as steel to maintain stable levels of production and of prices; secondly, that prices must give an adequate and fair return on investment, while leaving reasonable scope for competition, in order to obtain a rationalized and efficient industry adequate for European requirements.

The conditions seem to be looming when these lessons will have to be put to the test. In the immediate post-war years, when world and national markets were governed by high demands and exchange difficulties, the long-term problems of these industries remained discreetly hidden. They hide no

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longer. The Rollman Report, which estimated a surplus West European capacity of 8 million tons by 1953, gave precision to symptoms that had already been appearing here and there for several months. As early as the autumn of 1948 Belgium and Luxembourg steel producers were finding difficulties in selling their products. Germany, with rising production—" barred " from eastern markets—is now looking to other export markets. France is worrying about a home market that is fading and an export market that gets more difficult to expand every day, in spite of the softness of French francs.

The market outlook has thus again become of vital importance, and marketing problems are demanding the attention both of industries and of countries. The recent removal of control of steel distribution in Britain is but another symptom of the same general condition, namely, that a still rising production has caught up with demand—and demand cannot be hurriedly expanded. The Rollman Report was probably pessimistic; results in the export markets in 1949 indicate that the estimated surplus may not be so large as expected; but British steelmakers feel that the conclusions of that report still point unmistakably to the importance of tackling the marketing problem now, and of pressing forward with market research and development.

Granted, then, that the problem exists, the question remains whether the Schuman pool would provide the right machinery for resolving it. It must be emphasized that the pre-war experience of international competition, price cutting and dumping, and even of international agreement, makes the British steelmaker look carefully at any proposals that take away the weapons that, with governmental help, he can count upon at present. He wants to know, naturally enough, what he is expected to sacrifice, what there is in it to be gained, and what guarantees there are that the new proposals do not mean a return to the ruinous conditions of the 1920s. With the past in mind, he is certain that some international organization is necessary but there are many questions he is bound to ask. Can the Schuman Plan be worked out in such a way as to maintain the competitive element in some measure and yet compel all concerned to abide by fair practices in trade ? Can it maintain reasonable prices without too great an interference in the operations of the individual producers ? Or does it involve a rigid plan for development in which the steelmaker himself will be allowed to play only a minor rôle ?

Long-term development plans require much careful study and research, and most steelmakers believe that these plans are best prepared by those on the ground—with knowledge of the market, with technical experience, and an appreciation of the business risks involved. These are no doubt the right criteria for the preparation of plans, and steelmakers believe that, provided reasonable stability could be given to the market under a European Authority, plans could spontaneously be produced that would go a long way towards assuring that rationalization of the industry that is essential for the well-being of the whole community. Outsiders may well ask, in the light of past experience, whether it is sufficient merely to assure stability to the market, and whether it is possible for an international authority to lay down conditions that will encourage spontaneous development and relocation of the industries concerned without either under-investment or over-expansion. No doubt they may consider that in the transition period some powers must be given the authority to guide development compulsorily.

When discussing the possibilities of any guiding of development by an

international authority, it should be remembered that, since the war, the O.E.E.C. has attempted to deal with precisely this problem—but with singularly little success. This lack of success is usually blamed on the nature of the O.E.E.C., and its machinery. It would be as well, however, before laying such blame, to consider the difficulties of the task that the O.E.E.C. has tried to tackle. Several attempts have been made to estimate the future demand for steel in Western Europe, one of the best known being the E.C.E. Report by M. Rollman already mentioned. An examination of that report, of subsequent performance in exports and of recent developments in European home markets serves to show how tentative such estimates must be and how difficult it is to set a quantitative target for the capacity of the steel industry over such a wide area. Given an overall target of capacity, the amount of development planned will still depend on how much plant is to be supplanted and to be scrapped as obsolete. Such estimations involve complex cost studies, and final elimination of plant involves many social problems without whose solution the best-laid programmes break down. The Schuman proposals undoubtedly recognize some of these factors and offer means to help meet the problems that rationalization involves. But it is still the opinion of most steelmakers that the most important task that any international organization can perform is to try to stabilize the conditions under which steel is sold and to ensure, thereby and in other ways, the necessary incentives to encourage producers to modernize their plant, set up new plants in the best locations, and to produce sufficient steel. Capital projects in the steel industry are large and costly projects, and must be planned on a long-term basis. The conditions that encourage such investment must include a degree of stability in demand and a price policy that ensures an adequate return on the costs of an efficient plant and an incentive to reduce these costs. It may be argued that some marketing schemes have not provided such an incentive, but this is a problem that the authority must tackle.

A steady and expanding demand is closely linked to full employment, and no high or supra-national authority for the coal and steel industries can ensure full employment in Europe any more than the Labour Government can maintain it in the United Kingdom in face of a world recession. A high authority could help, by encouraging investment and modernization at the right time, but such a policy, especially because of its effects upon the employment situation, would have to be taken in concert with joint action in a much wider field by the governments concerned. It is quite clear that measures in the sphere of prices—such as price-cutting below cost in the effort to maintain local employment—cannot of themselves change *substantially* the basic demand for steel. Such measures merely alter the immediate pattern of production without altering the quantity. The demand for steel has a relatively low price-elasticity, but it is highly responsive to changes in the general level of economic prosperity. No planning of steel production as such, whether by cartels or by socialist planners, can sell another ton of steel unless the steel programmes are in line with wider economic policy. The steel industry, arguing along these lines, has long contended that, at all events in the short run, price reductions, instead of expanding demand, simply switch orders from Smith and Co. to Pierre et Cie. In Europe, cartels and employers' associations were the logical outcome of this reasoning, and the mechanism known as " price leadership " was the outcome in the United States. One of the tasks that the high authority

will clearly have to undertake is the supervision of any such market arrangements. In several European countries prices are fixed on a cost plus reasonable profit basis, taking either efficient works costs or average costs as the basis. The incentive to produce more efficiently can exist under such fixed price arrangements *provided* the high cost producer is unable to continue in business indefinitely. Plainly, it ought to be a prime duty of any international body to ensure that such conditions are maintained; for to deny that demand for steel has any high elasticity in the short run is very far from being a denial that the efficiency of the industry, and the cheapness of its products, may have profound effects on the general level of economic welfare.

There are other price problems that must be examined before the conditions can be created that the Schuman Plan envisages. One of the most pressing of these will be whether any prices laid down by the authority should be delivered (or " freight-absorbed ") prices or whether they should be ex-works prices (so that there should be some element of competition based on differences of freight costs). The French idea of recreating the Ruhr-Lorraine coal and ore arrangements that existed before the first world war, with a view to the most efficient locating of industry, would produce completely different patterns of location if freight charges were absorbed in average prices from those that would obtain if prices were charged ex-works plus freight. Many producers will naturally plead for freight-absorption schemes in order to retain existing customers and to avoid too great an upheaval. It must be remembered, too, that social problems and the movement and rehousing of workers are very important elements in the time taken to rationalize the industries concerned. But the demand by the ultimate consumer for the cheapest and most efficiently-produced product calls for setting up conditions under which in due time all the producers in the chain will be located where costs of production, including freight at all stages, will be the minimum. These conditions can be achieved only if freight-absorption is limited in the initial period and is ultimately to be abolished.

Finally, something must be said about the professed objective of the Schuman scheme: " the supply to all member countries of the basic materials of industrial production on the same terms ". This phrase is open to wide interpretation, but it is generally assumed that it signifies primarily the removal of tariffs and such barriers to trade, the abolition of dual pricing, and the equalization of freight rates. Perhaps the best point that can be made here is that many of these discriminatory measures were adopted in their present form at a time of shortage in the supply of materials and will in any case have to be altered soon.

To sum up, coal and steel producers are becoming more and more aware of a period of potential over-supply. They see no solution in setting up a supra-national authority—with the kind of tasks assigned to it that are already being overtaken by events. They realize the need for an international organization in these industries and the difficulties of its task in periods of over-supply. They wonder whether the Schuman Plan will make it possible to solve the problems that confronted the cartel when demand was low. They wonder whether the proposed high authority, without adopting restrictive policies, will be able to maintain the necessary incentives in the industry for its continued modernization, and yet provide adequate protection for the consumer.

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Ceylon's Central Banking Experiment

AT the beginning of this year the Ceylon House of Representatives gave its approval to a Monetary Law which contains provisions for the establishment of a Monetary Board and a Central Bank of Ceylon at an early date. This law has been drawn up under American tutelage and along lines that have been the subject of experiment in certain Latin American countries for some eight years past. The step from an " automatic " currency system (such as that which Ceylon inherited with its old Colonial Currency Board) to an ultra-modern " managed " currency system is necessarily fraught with great dangers and there may be some who will regret that Ceylon has decided to run such risks at this time. But, whether premature or not, the Ceylon experiment deserves the closest scrutiny in this country. Its importance lies in the fact that it establishes a prototype of the sort of monetary system which, in the opinion of many reputable economists, should eventually replace the rigid automatism of the Currency Boards now responsible for the provision and control of currency within the British colonies.

The arguments in favour of the projected monetary system in Ceylon are authoritatively set out in a recent report* submitted to the Ceylon Minister of Finance by Mr. John Exter, of the American Federal Reserve System, who was the author of the Bank's constitution and is likely to be its first Governor. The main objection to the Currency Board system, as Mr. Exter sees it, is that the powers of such a Board are narrowly limited to the automatic issue and retirement of local notes and coin against sterling lodged with or withdrawn from its agents in London: the Ceylon Currency Board, as a special case, can also issue and retire Ceylon rupees against Indian rupees lodged with or withdrawn from its agents in Bombay. In regulating the local money supply, however, the Board has no discretionary powers at all; it is equally impotent to neutralize the gluts or shortages caused by rapid swings in the local balance of payments as it is when faced with appeals for more credit to meet the needs of an expanding economy. These complaints against the Colonial currency system are not, of course, new, and it may be that critics of the system customarily overstate their case; in particular, they generally exaggerate the potentialities of expansionary monetary policies in such countries as Ceylon. The fact remains, however, that the automaticity of the Currency Board system does have illogical results. For example, as West Africa has learned to its cost this last year, even a temporary export surplus generates an equivalent expansion of the local money supply, so that there is the maximum incitement to inflationary spending. Conversely, even a temporary deficit rapidly provokes a strong deflationary pressure. It is understandable, therefore, that local governments in such territories hope to smooth out such ups and downs by the use of monetary techniques of the kind familiar in more advanced economies. Whether such techniques could also be made to serve the more ambitious aims generally advanced in support of any project for monetary autonomy, is much more questionable. Much depends on the extent to which the banking habit has been, or can be, developed in the local community.

* Ceylon Sessional Paper XIV of November, 1949.

It is on the argument that the Government of any developing country subject to large cyclical fluctuations in its balance of payments must be allowed some control over local money supply that Mr. Exter and the Ceylon authorities rest the main case for the establishment of a Central Bank of Ceylon. Their case is, however, backed up by certain subsidiary arguments which can only be summarized here. They hope that the establishment of a central bank will greatly strengthen the commercial banking system. At the moment all but one of the major commercial banks in Ceylon are branches of foreign banks depending for their profits from that Dominion principally upon a rapid turnover of exchange business, which engages only a relatively small proportion of their total funds; these banks do not participate in domestic banking business to any considerable extent. The Ceylon authorities believe that the central bank, by acting as a lender of last resort, and thus making local banks less vulnerable in times of crisis, will stimulate the growth of an indigenous banking system; and that, through its powers of examining and supervising the operations of commercial banks, it will be able to protect Ceylon depositors against bank failures. It is also hoped that the projected bank will ensure a more effective management of the public debt, will broaden the market for Government securities, will be able to lend some support to the co-operative credit movement, will act as the Government's agent in certain systems of loan insurance and will take steps to create a market in forward exchange. In short, the blue print contains every one of the customary objectives.

So much for the objects behind the bank's establishment. What now of its constitution? The ultimate responsibility for the operations of the bank will be vested in a Monetary Board composed of only three members. One of these will be the Permanent Secretary to the Ministry of Finance; the other two, one of whom will be the Governor of the Bank, will be appointed by the Governor-General of Ceylon from outside the ranks of Government service for six-year periods. The Monetary Board will be advised by a Department of Economic Research, some of the initial personnel of which will probably be recruited from English, American or Australian academic circles.

The central bank itself will include not only the usual technical sections, but also a Department of Bank Supervision. This Department will have wide powers to examine the books of all banking institutions in Ceylon and to see that commercial banks maintain a " balanced position " between their liabilities and assets in Ceylon rupees (i.e. an undue proportion of such assets must not be in other currencies). It will also have the right to order suspension of business by any bank which it believes to be on the verge of insolvency. Any such order, however, will lapse within thirty days unless the " Director of Bank Supervision makes application to the competent court under such written law as may be applicable in that behalf for the winding up of the institution concerned ". Provided the " written law " is not tampered with, therefore, this power may not be as dangerous as it at first sounds.

The main duty of the Monetary Board is stated in the draft law to be that of " so regulating the supply, availability, cost and international exchange of money as to secure . . . (*a*) the stabilization of domestic monetary values; (*b*) the preservation of the par value (and the free convertibility) of the Ceylon rupee; and (*c*) the promotion and maintenance of a high level of production,

employment and real income in Ceylon". In its pursuit of these objectives the Board is enjoined to keep a careful eye on certain signposts of economic health. These include the relation of domestic to world prices and costs, the level and composition of exports and imports, the international balance of payments, the extent of automatic changes in money supply and the cost of living index. If the Board finds at the end of any month that the money supply (i.e. demand deposits plus notes) is more than 15 per cent. above or below the level attained at the end of the corresponding month of the previous year, then it must immediately make public a report on the causes of this change, together with an announcement of what it intends to do about it. A report of the same sort must also be published if the cost of living index rises by more than 10 per cent. in any one year, or if an alarming fall occurs in Ceylon's exchange reserves.

Two points should be noted here. In the first place, the central bank is not to be under any obligation to maintain a minimum ratio of its international reserve to its sight liabilities. The American author of the bank's constitution points out in his memorandum that such a reserve ratio is almost always an unsatisfactory guide to policy. At times when the actual ratio is above the minimum, the bank's management may be lulled into a sense of security that is not justified by an analysis of other factors in the monetary situation; at a time when the balance of payments is adverse, strict adherence to the minimum ratio locks up the reserve and prevents its use for the very purpose for which it is intended—namely, the financing of temporary deficits in the country's balance of payments. The Ceylon central bank constitution also rejects the use of more refined reserve ratios, such as those recently introduced in some Latin American countries (whereby minimum obligatory foreign exchange holdings are related to the average sales of foreign exchange over a run of recent years). The new bank constitution does, however, lay down that Ceylon should hold part at least of its foreign exchange reserve in currencies which are convertible, directly or indirectly, into gold. In order to set up the nucleus of such a reserve, the United Kingdom has agreed that Ceylon should hold back up to $1 million of her current dollar earnings from the sterling area's central dollar pool in the year to June, 1950.

The second point which may be noted here is that, when the various signposts of economic strain flash red, the Monetary Board is permitted—but not obliged—to take special remedial action. If, however, it does not do so, it is obliged to issue a report explaining the reasons for its inaction. Useful though this provision may be, such publicity is perhaps unlikely, in a country such as Ceylon, to provide any very sure guard against imprudence in such highly technical matters. The latitude to be allowed the Monetary Board is no doubt attributable in part to the reaction against automatism in financial policy (of which the whole Monetary Law is an example); the desire to avoid the compulsion to take remedial action in any given situation is no doubt strengthened by the realization that such remedial measures as may be practicable in a country such as Ceylon are necessarily more clumsy than those which can be taken in more advanced economies.

In countries such as Ceylon, with only very small and unorganized capital markets, traditional weapons of central bank action (such as the weapons of discount rates and open market operation) are too weak to control the volume

of credit and new weapons of unprepossessingly illiberal appearance have necessarily to be forged if such control is to be effective. In order to avoid too frequent resort to illiberal weapons, however, the strengthening of traditional central banking weapons in Ceylon is to be pushed to extreme limits. In its transactions with the commercial banks and with the Co-operative Federal Bank the new central bank will be able to discount (or grant advances against) credit instruments with a life as long as 270 days (180 days in the case of bills connected with the import/export trade or storage of products). In special circumstances, however, the maturities of these credit instruments may be extended to as long as one year and the central bank may also grant advances (under fairly tight conditions) of up to one year's maturity to mortgage lending institutions. In times of imminent financial panic, however, even these limitations may be disregarded. In its credit operations the central bank may charge separate interest rates for each class of transaction; its objective in determining the differential rates will be to encourage the commercial banks to undertake some types of lending and to eschew others. This objective also underlies some of the less orthodox devices of central bank action for which the draft law provides.

To give the central bank scope to influence the money supply through open market operations, it will have the power to buy and sell not only Government securities (whose price it may wish to support on the market for reasons unconnected with quantitative monetary control), but also special negotiable securities which it may itself issue. This special power of issue is primarily designed, however, to ensure that the bank will never find itself in a situation calling for contractible open-market sales without having anything to sell —a necessary precaution in a country which cannot expect for many years to have any flexible market in Government securities. A device of the same sort was first introduced in Argentina, by Dr. Raoul Prebisch, in those days before the war when that Republic was experimenting in most heartening fashion with enlightened techniques of monetary management for developing economies. The rules then laid down by Dr. Prebisch for Argentina are now incorporated in the Ceylon constitution: the bank's obligations must not be issued for profit, and, if and when they are later re-purchased, must not be included among its assets but must be immediately cancelled.

The other instruments of action with which the Bank is to be equipped will include control of reserve requirements, of portfolio ceilings, of capital asset ratios, letter of credit margins and interest rates. Among these, the power to regulate the reserves of the commercial banks is perhaps the most far-reaching. The commercial banks will be obliged to hold a prescribed cash reserve which, in the ordinary course, may be as high as 40 per cent. of their demand deposits plus 20 per cent. of their savings deposits or as low as 10 per cent. against the former and 5 per cent. against the latter. In addition, in times of inflation, the Monetary Board can order the commercial banks to hold a 100 per cent. reserve ratio against any *increase* in deposits after a stipulated date. If such an order obliges any commercial bank to maintain a minimum cash reserve equal to more than 40 per cent. of its demand deposits plus 20 per cent. of its saving deposits, then the central bank shall pay interest on the excess to the commercial bank concerned at a rate not higher than the lowest of the central bank's discount rates then in operation. Mr. Exter points out in his report

that this power to fix special reserve ratios in times of inflation is similar to the " special accounts " system practised in Australia during and since the war.

The Monetary Law also seeks to give the Central Bank of Ceylon powers of control over the direction as well as over the quantity of bank finance in Ceylon. These powers are set up by what are perhaps the most controversial sections of the Act. In the first place, the Monetary Board is to be given the power to fix what are known as " portfolio ceilings " (i.e. limits on the rate of increase) both on commercial banks' loans and investments as a whole and on particular categories of commercial bank loans and investments. Although this is intended primarily as an anti-inflation regulation it is obvious that it can be used to slow down or prevent the increase of any particular type of credit which the Monetary Board regards as undesirable. Secondly, the Monetary Board is to be empowered to prescribe the minimum ratios which the capital and surplus of any commercial bank shall bear to the total volume or specified categories of its assets. Here again is a weapon of selective, as well as quantitative, credit control. The Board can prescribe high ratios of capital and surplus to types of loans which it regards as undesirable or risky; for instance, Mr. Exter suggests that a commercial bank's capital and surplus might justifiably be required to be equal to 40 or 50 per cent. of its real estate and other fixed assets, but to only, say, 5 per cent. of its high-grade commercial loans. Another selective weapon in the hands of the central bank will be that of requiring commercial banks to hold minimum cash margins as cover for any letters of credit they open; different margins may be prescribed for different classes of transactions financed by means of letters of credit. Mr. Exter has suggested that this regulation might be used to discourage the import of inessential goods, or speculative imports of commodities in short supply. One other control granted to the central bank, that of limiting the interest paid by commercial banks on deposits or charged on loans, is apparently intended to be used only sparingly. Mr. Exter declares that it is necessary only to prevent " abuses " (such as unsound competition among the banks in the form of excessively high rates of interest on deposits).

It will be obvious from this summary that the new Monetary Board is going to be given almost unlimited power of control over the banking system of Ceylon—a power which, if misused, could do irreparable harm to the island's economy. The constitution does, however, make a determined effort to guide it clear of two special traps into which many experimental monetary authorities in immature economies have fallen. The first trap is that of trying to deal with every difficulty which arises by tampering with the external exchange rate or the system of exchange control. Mr. Exter has firmly written into the constitution most of the requirements of the International Monetary Fund's usual rules of conduct; he has also gone out of his way to place the responsibility for administering exchange control upon the Government, not upon the bank. The bank is, in fact, enjoined in its constitution to buy or sell any foreign exchange offered to or demanded from it by commercial banks in Ceylon (except that it is not obliged to purchase inconvertible exchange). This does not, however, imply a departure from the system of sterling area exchange control, since the commercial banks' demands for convertible currency will be limited by the Government's licensing system.

The second trap from which the constitution strives to save the central

bank is that of becoming the milch cow of an improvident Government (as so many central banks in developing economies have become in the past). The constitution lays it down that the bank may make only " provisional " advances to the Government; the duration of the advances must not be more than six months, and the total outstanding at any time must not exceed 10 per cent. of the estimated financial revenue of the Government for the year in which the advances are made. This is a novel and interesting limitation, although it is not even a technically watertight safeguard against Government misuse of the central bank. So long as open market purchases of Government securities are allowed (as, of course, they must be), it is very difficult to prevent these becoming an indirect means of making central bank credit available to finance Government deficits. The Ceylon constitution does, however, go some way towards blocking this loophole by prohibiting the bank from subscribing to new issues of Government stock and by laying it down that open market operations are authorized " only for purposes of assuring the stability and liquidity of the market and for increasing or decreasing the supply and availability of money in accordance with the national credit policy "; this obligation to keep on a straight, narrow but not easily definable path may, however, be very difficult to carry out.

Those who question the wisdom of this monetary experiment in Ceylon base their misgivings, however, rather upon doubts about the original decision to set up a central bank than upon apparent flaws in the technical soundness of the bank's ingenious constitution. The argument that a central bank will damp down the inflationary pressure exerted by an active balance of payments, for example, is justified only if the central bank can really hold back from exporters some part of their earnings. The argument that such a bank can make credit more readily available to meet the needs of an expanding economy is one which can easily be exaggerated (particularly as foreign capital almost always plays a more important part than domestic savings in promoting the initial development of any territory).

Once the decision to set up a central bank had been taken, however, the narrowness of the capital market in Ceylon made it inevitable that the instruments of central bank control should be novel and unpleasantly sharp. If the development of an indigenous banking system is to be encouraged, the central bank must, for safety's sake, keep the new-comers on a tight rein. The experimental constitution drawn up in the Ceylon Monetary Law takes cognizance of these factors; it is fair to say that the powers with which it equips the Monetary Board, broad as they appear, are necessary if the central bank is to succeed in its professed purpose. Nevertheless the fact remains that the new system carries with it only dubious potentialities for good and considerable potentialities for harm; that harm can be avoided only if the sound theory written into the Law is matched over the years by sound banking practice. The experience of the next few years will be watched with interest to see whether the Ceylon experiment will indeed show the rest of the Empire the way that a developing economy should take to free itself from the as yet ungauged disadvantages of the Currency Board system or whether it will merely provide another example of the tangled skein so often woven by those who set out with the good intention of making finance " the servant instead of the master of the people ".

Risk Factors in "Foreign" Banking

III—Exchange Business, Guarantees and Travel Services

By *Service Étranger*

BEFORE the war the risk of exchange losses always loomed large in the minds of bankers doing foreign business. If a dealer was good at his job, buying and selling spot and forward in pre-war free markets could yield good profits, but there were plenty of pitfalls for the unwary. The cardinal precepts of exchange business are, of course, that one must not be caught long of a depreciating currency and that one must not be caught short when a currency one needs appreciates; to this end the textbooks teach that the counsel of perfection is that each debtor should balance his position at the end of each working day so that nothing even faintly resembling a gambling risk should sully his book. Naturally enough, however, the game as actually played in pre-war days did not always work out with this smug neatness and there is no doubt that even the best dealers sometimes deliberately allowed themselves a little more latitude than the textbooks recommended.

Under the post-war system by which nearly all rate fixing has been taken over by the Bank of England (and under which the fixed commission has replaced the fine margin) the exchange dealer is robbed not only of a profitable field of operations but also of his opportunity to help his customer by buying and selling on the best terms. It can be argued, too, that this change of system allowed some old skills to rust. As month after month went by with rates unaltered, some bank men grew into a state of mind that took no account of the inherent instability of the exchanges. This insensibility, shared by most of the banks' customers, was the cause of a certain number of losses when sterling devalued last September.

It should not be supposed, however, that the banks as a whole were caught completely off their guard. It must be remembered that several important countries (such as Canada, Sweden, New Zealand and France) had adjusted their exchange rates a few years before the 1949 cataclysm; moreover, from May, 1949, onwards, there had been warnings in every sensitive market that, despite official disclaimers, the pound could not for ever hold its ground. Throughout last summer, therefore, many bankers were manoeuvring as best they could to counter any effects of a depreciation of sterling that would hurt their customers. If a banker had to collect a dollar cheque on New York last August he did not generally hurry it forward for presentation; such cheques tended to be sent by sea unless the customer had specifically opted for air mail. On the other hand, if a bank customer was, say, an emigrant to America who was due to receive an annual portion of his sterling capital under the emigrant scheme, his remittance last August would, in the absence of specific instructions, be sent forward by air mail to minimize the risk that it would be overtaken by devaluation. Unfortunately, however, most orders transferring money to people overseas come through branch banks and when they reach the Foreign Department they already bear a direction about the route to be

employed. Last summer, therefore, although some Foreign Departments may have wondered how far the branches had explained the issues to the customer, some cheques were inevitably sent through by a routeing that was against the Foreign Department's own better judgment. Pressure of work made it impossible to reopen the question of routeing except for the biggest transactions. Unhappily many remitters, though ready enough to grant that other nations' currencies might depreciate, found difficulty in accepting that sterling might do likewise; as a result, banks were too often instructed by their customers to transfer money to beneficiaries abroad in " the cheapest way possible ". Thus many beneficiaries last autumn found that they were getting much less in their own currency than they had calculated to receive; they naturally rounded on the remitters, many of whom rounded in turn on their bankers. A few of the demands made could, of course, be dismissed out of hand, but, that done, there were still numerous marginal or " hard luck " cases. Often the banker's liability depended on different interpretations of exactly what the customer had verbally asked his branch to do; sometimes there had been a " course of business " set up by the execution of previous transfers. By the time the last " transfer " exchange losses have been cleared up (some are still in dispute) British banks will have had to cover claims which, though possibly well within their early expectations, will yet constitute sizable evidence of the risks that are inseparable from foreign business.

Risk on Guarantee Business

The liability that may arise from bank guarantees and indemnities is so serious that most, if not all, British banks enforce the rule that such undertakings require the signature of a senior official. The great majority of guarantees, of course, are for the production of missing documents of title ; where the only undertaking of the bank is that duplicates already held will follow by next mail (as in Outward Bill work), very little risk is run. Risks are much greater, however, when overdrafts are guaranteed or when the guarantee of an overseas bank is counterguaranteed by a British bank. British exchange control regulations have severely limited the granting of these facilities to non-residents, but it

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is still possible for a resident (such as a public works contractor) to set up an account with some bank abroad and to obtain overdraft facilities on it against the guarantee of his English bank. In these cases there is added to the ordinary overdraft risk new risks on the exchange and, not infrequently, risks of a political nature as well. Although guarantees of this type are given only on behalf of strong customers, the obligant bank has to keep a close watch on affairs in the lending bank's country, a duty which emphasizes the importance of maintaining a foreign economic advisory service in good trim.

Another type of guarantee that must not be given lightly or in unconditional form is an affirmation by a bank that the recipient of a pension or annuity is still alive. The case of *Gowers and others* v. *Lloyds and National Provincial Foreign Bank Ltd.* (1938) is a fairly recent reminder of the danger of paying a pension by post against a certificate of continued existence supposedly countersigned by an independent third party such as a doctor. It often happens that a banker is asked to credit his customer with a draft, on the back or face of which he is required to sign such a certificate of continued existence. He should sign only when the affirmation is clearly stated to be only " to the best of his knowledge "; even then care is necessary when the beneficiary is resident abroad. The banker may not have heard from the beneficiary for many months and it may be that the account concerned is a joint one (with either party allowed to sign) and that all the drawings are being made by the surviving party. In such circumstances a banker must be very sure of his ground before he signs what amounts to a guarantee. Sometimes, too, arrangements are made whereby a bank gives a standing guarantee of continued survival and then receives a pension for an overseas customer who holds a joint account; these arrangements involve real risks, for the payments come in with a regular, lulling rhythm that makes it easy to forget the undertaking on the strength of which they are paid. It follows from their nature that such guarantees should either be adequately covered by securities or else frequently checked, to make sure that the customer is still alive.

A guarantee sometimes involves the risk of having to pay some fixed or approximate sum in foreign currency. Such a liability involves a duty to cover exchange forward, and the contracts for forward exchange must be continuously renewed. One of the evil effects of a world of pegged exchanges is that traders tend to underrate the desirability of " securing " their exchange. It is the duty of the banker to remind them of the risk, even when he himself will not be involved in any way. The limited possibilities of the forward market have always been a sore point to many importers and exporters. A manufacturer who enters into a contract to supply capital goods at prices quoted in foreign currencies may not be able to make delivery in less than a year. He often complains when told he can cover forward for only six months; this complaint becomes even more bitter if expectations about the exchange rate alter so radically in the first six months that the forward exchange contract for the second six months either cannot be renewed at all or only at a heavy charge. The same time limit on forward exchange contracts was, of course, enforced before the war when the market was a free one; the limit is a necessary consequence of the fact that there are certain risks that the banks cannot take. But at the present time, when the world situation is so unsettled and capital goods with long-term delivery dates are such an important propor-

tion of British exports, the obligation to renew forward exchange contracts each six months can cause anxiety both to a lending banker and his customer.

Risks in Travel Services

The nature and complexity of post-war British exchange control regulations have led to a great increase in the business undertaken by the banks for clients who are travelling abroad either on business or on pleasure. One consequence of these regulations is that British travellers now take a far larger proportion of their cash requirements in the form of travellers' cheques or letters of credit than they used to do.

If the holder of a letter of credit loses both it and the relative letter of identification he is legally liable to bear any resultant loss himself. The banks do not therefore run any risks on this business; they usually debit customers' accounts with the face value of travellers' cheques immediately upon issue and no customer is entitled to get his money back merely because he has lost his cheques or had them stolen from him. If a customer is of good standing, of course, his bank will probably recredit him under his personal indemnity, provided the missing cheques have not been cashed after a decent interval—but this is merely done as an act of grace. The banks do, however, run some risks on those travellers' cheques that are sent *en bloc* to some correspondent bank abroad, to be sold by it to those of its customers who intend to visit the United Kingdom. The cost of these cheques is not usually debited until they are presented to the issuing banker after encashment, and by that time the correspondent bank may have served a notice that they have been stolen from the true owner. The issuing banker then has the right to defer payment pending explanations from the presenter, but the cheque usually has to be honoured in the end to the debit of the correspondent bank.

The increased flow of American visitors to Britain has resulted in the encashment by British banks of thousands of dollar travellers' cheques each year. When these are presented at the bank counter by their reputed owner the cashier should check them against the signature and photograph in the passport; if, as sometimes happens, the presenter claims to have left the passport in his hotel, the cashier must use his judgment (or his manager's). Strictly speaking, however, the bank has a duty to pay only against identification and it is liable for any loss arising from its failure to take such precautions.

British banks can also make losses through dealings in foreign notes. There are a large number of forged foreign notes in circulation, and many old foreign issues have been called in and are no longer valid. The experts in the Foreign Department will be on their guard against these (though even they have sometimes nodded), but the branch cashier has to be kept constantly minuted by headquarters. It must be remembered that the presenter of a foreign note almost always wants it cashed at once—" collection " is of no use to a stranger passing through a town—and the genuineness of a note cannot very well be referred to the Foreign Department by telephone. The losses in this apparently vulnerable sector are surprisingly few in relation to the turnover, but branches in some areas have been caught out to their cost.

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The next article in this series will deal with risks arising from the accounts maintained with London banks by overseas residents, and from the accounts that London banks maintain abroad.

IRELAND

A Financial and Economic Survey

The Balance of Payments Problem

By G. A. Duncan

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GEOGRAPHICALLY speaking, the Irish Republic is a small and compact state. The largest part of its traffic with other countries is seaborne, a fact which permits convenient statistical " trapping " at the ports. It has also a highly-developed and imaginative statistical service. It would thus seem to be a statistician's dream—except for the fact that the Republic has a land frontier with Northern Ireland. Yet Ireland is, in fact, the statistician's nightmare, because its subjects are so closely intertwined in their social and business relations with the rest of the British Isles that statistical " trapping " of the transactions relevant to currently conventional balance of payments guess-work becomes impossible. For example, an Irish citizen may have accounts current with one bank in London and another in Dublin. His London bank may permit him to over-draw to a certain sum, while his account with his Dublin bank is in credit to the same amount. There will then in effect be a capital transfer which neither the present, nor any conceivable, Irish statistical net can " trap ". The use which this customer makes of his two accounts may subsequently come into the net under some other guise, but there is no necessity that it should. Even if it does, the connection between the original " untrapped " transaction and the subsequent " trapped " transaction is a matter of dubious inference only.

Examples of such statistical difficulties could be multiplied, but this one is enough. The purpose of it is not to suggest that the statistical net ought to be drawn tighter by either the extension of Republican rule to Northern Ireland or more rigorous inquisition into its subjects' financial behaviour, but to show that the Irish Republic suffers particularly sharply from a " planning " dilemma which is common to all civilized societies. On the one hand, any possibility of conscious " planning " depends on the possibility of accurate and immediate knowledge of the items believed to be relevant to the " plan ". On the other hand, any progress in civilization tends to be accompanied by an increase in those intimate and complex relations with the subjects of other states that escape any statistical net. The conditions that offer the best chances to the " planners " and statisticians amount to a division of the world into watertight compartments, every transaction between them being adequately controlled. Such conditions are a negation of civilization. If the grass had grown on the Dublin-Belfast railway as on the Kovno-Vilna line; and if the traffic across the Irish Sea had dwindled as that on the Danube or Adriatic; and if all assets held abroad had been sequestrated and all banking

transactions rigorously scrutinized—then Irish statistical information would be much better, but at what a price!

Partly because of the difficulties of computation, the official estimate of the balance of payments for 1949 is not yet available, so that it is still difficult to see the character of the emerging " temporary equilibrium pattern " referred to in THE BANKER a year ago. So far as the balance is governed by visible trade, however, last year's expectations have been rather defeated. At that time the value of imports, which had reached a peak in the period July, 1947, to June, 1948 (with a monthly average of £12.8 millions and a maximum of £14.5 millions in October, 1947), seemed to be tailing off. For the next twelve months it oscillated around only £10.5 millions, and it looked as if the " buyers' spree " was over. But now the upward movement has been resumed. For the last half of 1949 the monthly average was £11 millions, and for the first quarter of 1950 £12.5 millions. This rise is not merely due to price increases following devaluation. From a peak level of 250 in May, 1948, the index of import prices (base 1930=100) fell to 219 in September, 1949, and has risen only to 236 in March, 1950. The volume of imports has therefore continued to rise after the relapse in the second half of 1948. The monthly average of imports at constant 1930 prices for July, 1947, to June, 1948, was £5.4 millions; from July to December, 1948, it was £4.4 millions; in 1949 it was £4.9 millions; and in the first quarter of 1950 it was £5.3 millions. It is improbable that the full effects of the devaluation of sterling have yet appeared, as so large a proportion of Ireland's imports comes from the United Kingdom. On this score, the value of imports must therefore be expected to rise further. The volume of imports, on the other hand, is not likely to be greatly affected by the degree of liberalization recommended by the O.E.E.C., but it is likely to be somewhat hampered by the progressive re-imposition and stiffening of tariffs and quotas temporarily suspended during and after the war. The pressure for more protection is unceasing.

On the other side of the account, the value and volume of exports of domestic produce have also belied expectations. Up to the end of 1949 both displayed a welcome expansion, with comparative stability of the price-index throughout 1948 and 1949. The monthly average value in 1947 was £3.2 millions, in 1948 it was £4.0 millions, and in 1949 £4.9 millions; a peak of £6.4 millions was reached in November, 1949. The corresponding volume figures (at 1930 prices) were £1.6 millions in 1947, £1.7 millions in 1948, and £2 millions in 1949. The first quarter of 1950, unfortunately, has brought a marked break in this progress, the relevant monthly averages being £4.7 millions at current prices and £1.9 millions at 1930 prices. It is to be hoped that this is no more than a seasonal contraction; a drop in exports has been a characteristic of the early months of the year in the past, but not on so marked a scale as this. The export price-index is now running several points higher than at this time last year; no doubt it reflects the results of recent negotiations between the Department of Agriculture and the British Ministry of Food (these are reflected even more clearly in the index number of agricultural prices). Unfortunately, the break in the expansion of the volume of exports is also a reflection of the failure ot certain parts of these negotiations. Some increase in Class III exports (raw materials and manufactured goods other than live animals, food, drink and tobacco) has taken place; the monthly average, which was £218,000

in 1939, rose from £778,000 in the last quarter of 1948 to £867,000 in the last quarter of 1949. But exports in this class are still only about one-sixth of the value of those in Classes I and II, which are mainly of agricultural origin.

It is clear then that the Irish Republic's hopes of securing increased purchasing power over imports must continue to be placed on exports of agricultural produce; the weakest part of her position lies in the obstacles to expansion in these, and particularly in the failure to re-establish the export of bacon and butter. In 1929 exports of bacon amounted to 24,000 tons, valued at £2.7 millions; exports of butter amounted to 28,000 tons, valued at £4.6 millions; and exports of condensed milk and cream to 5,500 tons, valued at £0.6 millions. In 1939 the corresponding values were still £2.3 millions, £1.6 millions and £0.2 millions respectively. If even the 1939 volumes of these formerly important products could be recovered, some £10 millions at current prices could be added annually to external earnings. But the rub lies precisely in the prices. Although the production of both bacon and butter has recovered strongly since the war (in bacon it is now three times what it was in 1947), and rationing of both has effectively disappeared, Irish export prices are not competitive with other suppliers of the United Kingdom market, and the Ministry of Food's bulk purchasing precludes competition by quality. Controversy is naturally rife whether the cause of these uncompetitive prices lies in the prices paid to farmers for milk and pigs, in the costs of processing, or in creamery and curing profits. The market prices of bacon pigs, after falling from a post-war peak of 202 shillings per dead cwt. in April, 1948, to 186 shillings in January, 1950, have begun to rise again; twice recently the price of bacon has been advanced. Moreover, a proposal of the Minister for Agriculture to reduce the creamery price of milk from 1s. 2d. to 1s. per gallon, but to guarantee it for five years, has not been well received by the creamery societies. At present, then, in spite of one shipment of butter to Germany, the prospects of export earnings from these products, except for the " concealed exports " in the stomachs of returning tourists, are not encouraging.

The Land Reclamation Scheme, financed out of the Marshall Aid counterpart fund, has now been put into operation in all twenty-six counties of the Republic, but, so far as it may achieve its objects, it is a long-term scheme and not likely to affect export capacity in the immediate future. The Government has also just established a Dollar Advisory Committee of business men and civil servants to advise on the promotion of dollar exports, but here, too, any results to be looked for are rather long-term. There has been no significant change in the dollar import position since last year. Two other small features of the merchandise balance of payments must also be mentioned. First, a considerable proportion of exports to the United Kingdom consists of goods that residents there have difficulty in purchasing at home. Many of these are bought here by tourists and taken home with them; such transactions, whether permitted or clandestine, escape enumeration either at the frontier or in the net receipts from tourism. Also, the parcel post traffic has increased considerably in recent years in spite of efforts to check the abuses of the " gift-parcel " arrangements. In the last quarter of 1949 parcel post traffic showed an excess of exports over imports. It is, of course, impossible to say how much of the traffic outwards (now averaging £250,000 monthly) consisted of genuine gifts.

The resultant of these various influences has been that the excess of visible imports, after declining irregularly from a monthly average of £9.2 millions between June, 1947, and May, 1948, to a minimum of £4.5 millions in August, 1949, has again risen steeply since then, averaging £7.6 millions per month for January to March, 1950. For the other current items in the balance of payments no further statistics have been published since those relating to 1948. The estimates for that year showed a credit balance on " invisibles " of £69.9 millions, made up of the following categories of net receipts: tourism, £33 millions; investment income, £8.2 millions; emigrants' remittances, pensions, etc., £11.5 millions; miscellaneous transactions, £1.9 millions; and other items, including the balance unaccounted for, £14.3 millions. The high proportion of the total accounted for by this last item (which is largely a balancing residual) must be borne in mind when assessing the significance of these figures; it should be noted, too, that the admittedly sketchy estimate for tourism is responsible for nearly one-half of the estimated credit balance. To the extent that it is overstated, or the " balance unaccounted for " consisted of capital and not current items, the drain on accumulated external assets was greater than the £19.9 millions which emerges, and which is balanced by a corresponding resultant in the " capital " account.

The character of this " capital " resultant is open to some doubt in view of the inevitable deficiencies of the figures. The sum of changes in the banking figures (i.e. changes in the external holdings of the Central Bank, the commercial banks, the Trustee Savings Banks, the Post Office Savings Bank and the Savings Certificates Reserve Fund), shows that there were net accretions of assets amounting to £27.8 millions in 1944, £28.1 millions in 1945 and £16.6 millions in 1946, followed by losses of £16.2 millions in 1947 and £4.2 millions in 1948. The sharp reversal of trend between 1946 and 1947 and the partial recovery of 1948 are remarkable. During 1949 these funds appear to have *increased* once more by some £15 or £16 millions. These figures are, of course, accurate as far as they go, but they give no clue to the market value of the transactions behind them, the sums realized for securities sold and the sums paid for securities bought, which are the items required for any true estimate of the balance of payments.

An attempt to sum up " private " transactions (purchases and sales of securities, company capital issues, net capital payments in respect of insurance, withdrawals from the United Kingdom Post Office Savings Bank and Savings Certificates) produces a somewhat similar picture; it shows accretions of £4.5 millions in 1944, £5.7 millions in 1945, and £2.4 millions in 1946, followed by losses of £1.6 millions in 1947, and £5.8 millions in 1948. These are presumably market values, and so far accurate, but they do not net the purchase and sale of securities through stockbrokers and banks outside the Republic, direct subscriptions to new issues, or encashments effected and spent in the United Kingdom. Moreover, they miss out the transfer of ownership of capital assets effected when a resident of the United Kingdom settles in the Republic. The numbers of such immigrants have not been great, in spite of an irresponsible agitation being worked up against them, but they have been mainly men of property. It must be admitted, therefore, that very little is really known about the accumulation and decumulation of foreign assets in this private sector; it cannot even be said that the whole error must be included within

the final balancing item. Moreover, there is little reason for believing even that the error is constant from year to year. For 1949 even the imperfect figures of previous years are not yet available. It seems, however, more than probable that the broad movement in this " private " sector should conform to that in the " banking " sector, unless there is reason to suppose that the middle and upper income groups, who are more likely to be buying and selling securities directly instead of accumulating and decumulating bank deposits, have suffered a different experience from those who follow the latter pattern. One could speculate indefinitely about the varying experience of the different groups—balancing the pressure of rising prices and rising taxes on the wide class of those who have enjoyed no compensating rise in income against the profits fed by protection and inflation and immigrant capital—but it is very difficult to form any conclusion on the evidence available.

Still, the probability seems clear that there was some net accumulation of foreign assets in the " banking " and " private " sectors taken together in 1949. How does one reconcile this with a " trade deficit " of £69.3 millions and a " current deficit " estimated by the Minister for Finance at about £10 millions (compared with the £19.9 millions for 1948 mentioned in an earlier paragraph, which is more like £30 millions if merely balancing residuals are omitted) ? Apart from the errors and omissions, the answer must lie in Marshall Aid, responsible for the jump in " other capital transactions " on the credit side (net) from a few thousands in 1944-46 to £12.5 millions in 1947, £11.8 millions in 1948 and some yet undisclosed figure in 1949.

As the Minister mentioned in his Budget speech, " it was not until the second quarter of 1949 that delays and difficulties arising from the transition to E.C.A. financing had been overcome and imports from the dollar area began to flow in accordance with programmed expectations ". The programme for the twelve months expiring June 30, 1950, is some $90 millions, or £32 millions, of which some £24 millions will be financed by the E.C.A., almost all by loan. The breaking up, by economic and military war, of old established commercial and financial relations has had many curious repercussions, some dangerous and some perhaps beneficial. The direct concern of Ireland's rulers with dollar imports is one of these repercussions, for the dollar deficit was a matter of no importance before 1932, and will be a matter of no importance in the future if the convertibility of sterling is restored.

The Budget this year contained an innovation that is worthy of note, namely, a division into current and capital parts. The innovation is more of form than substance, as ever since the establishment of the Republic as a fiscal entity in 1923 successive Ministers have made a selection of items from the Supply Services estimates which they have claimed to be " capital " or " investment ", and thus to be " safely " met from borrowed funds instead of revenue. There can be no question about the common sense of systematizing this practice, though plenty of doubt can arise about including as " investment " certain large items (e.g. those which involve an ultimate charge on the revenues of the central or local authorities, or a levy in the nature of taxation on the consumers of certain goods and services). But its immediate relevance to this article lies in its connection with another and controversial problem.

In the Republic, as in all other " fringing " areas not greatly endowed with natural resources or industrial enterprise (such as Brittany, Northern Scotland,

parts of New England, etc.), the accumulating savings of the people have habitually been invested not in local development (for which the opportunity and enterprise were wanting), but in the purchase of " foreign " securities, either directly or through the mediation of the banks. This leads naturally to resentment on the part of people who look at life mainly from a parochial and political point of view, and this emotional resentment is nowadays rationalized in the theory that the poverty of the fringing areas is due to " under-investment ", which in turn is the result of malice or ignorance or both. The " remedy " always proposed is forcible repatriation of the assets held abroad, for investment at home. This naïve theory has long been vocally supported in Ireland, and has recently increased its political prestige. In one way, it may not be entirely nonsense, for habit or fashion may have led some people to overlook opportunities lying under their noses. As a whole, however, it is nonsensical, because it overlooks the two important facts that investment is not a mechanical process and that there are bad investments as well as good investments. Investment will not take place unless people are on the look-out for opportunities—opportunities of using resources not necessarily local and opportunities of selling the product profitably. If people with that enterprising vision appear, investment will occur even in the most unpromising situations. There are plenty of examples of this in Southern as well as Northern Ireland. The location of industry is by no means rigidly determined by physical causes. Again, the purpose of an investment is to earn a return for the investor—and incidentally for everyone from whom he buys anything or to whom he sells anything. If a subject of the Republic uses his savings to buy shares in a rubber company or a tin mine or a rayon plant domiciled in the United Kingdom, it is quite possible that this use may prove more beneficial, not only to himself but also to all his fellow-subjects, than any conceivable use he could make of them inside the Republic.

One question must always be asked, whenever the topic of " repatriation " crops up: Will the real return to be expected from the proposed uses of the repatriated funds be as great as that at present received ? The present return has two quite distinct aspects. On the one hand, the owner of the " foreign " assets receives an income, by spending which he contributes directly to the welfare of his neighbours. On the other, that income assists his neighbours as well as himself to enjoy the products of other countries that they demand. These potentialities are both lost when the assets are repatriated, unless the funds are used in such a way as to maintain both the owner's income and the community's command over imports. If the internal " asset " has to be propped up by open or concealed taxation, or if it contributes nothing to the economy's competitive power, then these conditions are not satisfied, and both owner and community suffer a net loss of well-being. There is no particular virtue in either holding assets abroad or repatriating them; it depends entirely on the relative advantages of the uses. Unfortunately, the discrimination between tangible and intangible, financial and non-financial, present and future, known and anticipated, probable and improbable, personal and collective advantages is no easy or simple one, and lends itself temptingly to demagogy.

Industrialization in Ireland

By Alexis FitzGerald

THE case for industrial development in Ireland is simply stated; such development is but part of the progressive diffusion throughout the world of the production of manufactured goods. The process of industrialization reverses the movement of labour towards capital (which Ireland has had to suffer in the past) and brings instead the machinery to the labourer. Its aim—where it is genuinely economic—is to raise the marginal productivity of labour and to increase the real value of the earnings of the community.

The principles that justify increased domestic investment justify also the country's industrialization. In fact, a result of successful investment must be the spread of industrialism. There is a correlation between the yield in agriculture per unit of arable land area and the numbers of the community engaged in industry. The most admired agricultural countries have proportionately small numbers engaged in agriculture. Agriculture itself, it appears, tends to remain in a pre-capitalistic condition in an unindustrialized society.

Since the establishment of self-government, considerable industrial progress has taken place, as the table on page 50 shows; it will be seen from it that between 1931 and 1936 (the years of highest protection) alone, the volume of production increased by 40 per cent. Since 1946, moreover, the numbers engaged in industry have risen by some 40,000 to 206,000; there are thus now twice as many people employed in industry as there were in 1926 and the volume of output has increased by 100 per cent. since that time. The percentage of unemployed workers (in all occupations save domestic service, agriculture and fishing) has fallen from 15 per cent. in 1938 to 9 per cent. in 1949. As early as 1946 there was a remarkable recovery from the decline brought about by the war-time shortage of imported raw materials, and production reached a figure 12 per cent. over 1938 levels. In 1947 production increased by 6 per cent.; in 1948 by 15 per cent.; and in 1949 by 7 per cent. In the December quarter of 1949 production was 10 per cent. higher than that in the same quarter of 1948. The effect of industrialization on the volume and character of imports is also noteworthy. Between 1929 and 1938 the volume of imports fell by 17 per cent., but there was an increase of 18 per cent. in imports of capital goods and materials for industry; in the same period industrial production increased by 40 per cent. In 1929 less than half Ireland's total imports consisted of capital goods and materials for industry and agriculture. By 1938 this proportion had risen to two-thirds and now stands even higher. Despite an increased volume of imports in 1948, 10 per cent. of Ireland's imports were capital goods for industry, compared with 5 per cent. in 1929. In 1947 and 1948 the volume of imports was about the same as in 1929, but was one-fifth more than in 1938.

Since the war, industry has benefited from war-postponed purchasing, from receipts of tourism, from the development and mechanization of agriculture, the building programme and the opening up of the British market for goods in short supply there. A wide expansion has taken place in the canning of vegetables, fruits and fish, in the dehydration and freezing of fresh foods, in the tanning and dressing of sheepskins, the processing of wool, the dehydration of green crop products such as grass and meal, the processing of seaweed for

animal foods and the assembly of mechanized equipment for farms. New undertakings have been established for the production of rainwater pipes and fittings, baths, bricks, tiles, window frames, builders' hardware, plaster board, wallboard, doors, concrete mixers. The increased supply of electricity has led to the opening of factories for the production of electrical apparatus.

The 1948 Trade Agreement with Britain has led to an increased export of such products as jams, marmalades, jellies, canned vegetables, carpets, boots and shoes, woollens and worsteds, tweeds and cordages. The bulk of these increased exports consists of prepared foodstuffs in short supply, but there have been interesting developments in the whole pattern of Irish exports. Exports of paper and cardboard in 1949 were as large as exports of potatoes and the export of jams, marmalades and jellies now rivals in importance the export of whiskey. The export of milk products has increased fivefold since 1945, and the export of wool has doubled. An important new rope industry has arisen.

The advance in industry has not been obtained without cost—a cost not brought out in the statistical accounts of the advance, for the published figures

PRODUCTION IN IRELAND, 1926–46 *

	All Industry		Manufacturing Industry Only	
	Average number of persons engaged (thousands)	Volume of Production, Base year 1936 = 100	Average number of persons engaged (thousands)	Volume of Production, Base year 1936 = 100
1926	103	64.5	58	65.2
1929	109	70.1	64	71.1
1931	111	71.4	63	69.7
1936	154	100	97	100
1937	161	102.1	100	101.9
1938	166	104.3	100	99.2
1943	141	77.7	93	80.2
1944	143	80.6	95	84.7
1945	151	92.4	101	97.5
1946	167	108.3	110	110.9

do not reveal reduced quality or lessened variety. Between the years 1931 and 1936 the spread in prices between Great Britain and Ireland increased from 5 per cent. to 10 per cent. although the index of agricultural prices dropped by 20 points in that period; this drop masked an even greater spread in the prices of the products of the two countries. Irish protectionism in those days was crude and indiscriminate. It is not captious to say that there has been excessive reliance on the tariff and quota method of encouragement of industry, on what Adam Smith referred to as "mean and malignant expedients". A positive policy to replace these negative devices has been wanting. It is with this object in mind that the present administration has established a body known as the Industrial Development Authority, whose task will be to encourage and facilitate the expansion and modernization of existing industrial undertakings and to create conditions conducive to the establishment of new industries. The Industrial Development Authority is fortunate in being able to operate in conditions far more favourable than existed in the thirties and in having the benefit of the experience of Irish industry in those days. The personnel of the Authority is impressive and there are signs that there is some increased public understanding of basic economic

* Based on Dr. R. C. Geary's paper published in "Transactions of the Manchester Statistical Society", 1948-49.

realities. People have been educated in the truth that the maintenance of different new industries imposes different costs on the community. The Government has given a courageous lead to this change of heart by abandoning the turf schemes that were introduced to provide an inferior fuel substitute for Welsh coal at a time when the latter was unobtainable. The arguments of the small minority who wished to continue these schemes reminded one of Bastiat's famous Petition of the Candlemakers against the unfair competition of the sun in dumping light all over the world.

Although Ireland needs many industries, the possibility has to be faced that she may already have some she could do without. The uneconomic assembly in Ireland of articles that, in many cases, can be better finished at a cheaper price elsewhere, raises profound questions for a community with better alternatives available for the employment of its labour force. The doctrine of comparative costs should not be abandoned even though the principles of free trade are rejected here as unrealistic. It is the efficiency of Irish industry relative to the existing degree of efficiency of world industry that is important. Particularly is this true for a community so psychopathically import-minded as the Irish. It is an unfortunate consequence of the method of protection that while it protects the market for industry, the defensive armour that it imposes impedes the free and easy movement of those protected. The protected industry is not pressed by outside competition into the healthy exercise of those muscles which must be used if the efficiency of the concern is to be maintained, let alone increased. There is a tendency to run into fat. The excessively secure home market spoils the producer. The Irish economic system must be concerned with efficiently providing the Irish consumer with desirable and satisfactory goods and service. If it does not, the whole level of internal costs will be affected and this is bound to have unfavourable reactions on export prices and consumers' preferences for imported goods. The impact of such inefficiency upon the level of wages would be direct, and an important consequence might be a weakening of the tourist trade because of the shoddiness of goods and services offered.

If the doctrine of comparative costs had been accepted from the first, many of the rigidities that have grown up in the economy might have been avoided. From now on it should be ensured that the industries to be developed are those for which the country is relatively best suited; due regard must be paid to the size of the available market (both domestic and export), the supply of available factors of production and the special development schemes of the public authorities. Conscious central direction could secure substantial benefits from a degree of specialization. Ireland has many and growing advantages as a site for new industrial development and it is important that trivial sentiments should not restrict them. Already winds from the East have blown some seeds into the Irish garden. It is to be hoped that the Control Statutes directed against foreign investment will be liberally administered. The effects of a statute are not always those intended by legislators. Entrepreneurship ability is a very scarce industrial factor and the Control Statutes can easily aggravate this scarcity.

The adumbration of a positive policy for Irish industry must proceed within the economic and financial framework determined by the new investment programme. It is important that those in charge of the investment outlay should fully understand the principles that justify their expenditure; some-

times it seems some statesmen have been right for the wrong reasons. For example, the tilt of investment in the direction of agriculture has been justified here by the Physiocratic argument that the agriculturalist carries the rest of the community on his back. Irish agricultural development, however, is not justifiable because food is a more basic commodity than umbrellas, but because Irish food is more likely to sell abroad than are Irish umbrellas. It is justifiable because a country that has to export should first invest in producing what is exportable. It is likely that the industrial crop will be as great as the agricultural from the sowings of the Land Scheme and tragic if it is not. It is necessary to see that the investment programme is integrated in the movement towards industrialization. The positive plans of the Irish Development Authority must be concerted to the organization in Ireland of the production of the constructional and other commodities required by the project. These plans must further recognize that an effect of new domestic investment must be the expansion of the domestic market. Much should be possible in the 1950s that could not have been considered in the 1930s. Some of the naïvety of the Irish scene—so attractive to tourists—may be sacrificed. Some of Ireland's exportable surplus of beef may be eaten at home if the Irish people grow richer. There are going to be many new problems and much need for clear thinking as the Irish people settle down to the ardent practice of the arts of peace.

Irish Agriculture To-Day

By James M. Dillon, T.D.

(*Minister for Agriculture*)

IN the article I wrote for THE BANKER two years ago, I described how Irish agricultural production and exports had been seriously depressed by wartime shortages of essential raw materials and unfavourable price arrangements in our main export market, Great Britain. When the final proof of that article was being returned to the Editor, I was able to add a note to the effect that, as a result of a Trade Agreement which had just been negotiated in London, it was reasonable to hope that there would be a steady expansion of Irish agricultural exports to Great Britain to the great advantage of both parties. The Anglo-Irish Trade Agreement of 1948 has indeed proved to be a landmark in the development of better economic relations between the two countries. It enabled Irish farmers to increase their output of some of their main products in the knowledge that Great Britain would absorb at a reasonable price all they could produce for export. At the same time the British consumer was assured of increasing supplies of Irish beef, mutton, eggs and other commodities.

As I predicted when the agreement was made, Ireland "delivered the goods". The volume of total agricultural output in 1949 was more than 7 per cent. above 1948. The number of calves reared in 1949 was 100,000 more than in 1948. Exports showed a remarkable increase. The number of live cattle sent to Great Britain jumped from 372,000 in 1948 to 468,000 in 1949. The number of sheep exported rose by more than 65 per cent. The quantity of eggs shipped to Great Britain increased by more than 50 per cent.

After the Trade Agreement had been negotiated, the Irish Government

embarked on an ambitious programme of agricultural expansion in order to raise the volume of food exports to Great Britain far above any figure reached in the past. The " Land Project ", which was launched at the beginning of 1949, contemplates an expenditure of £40 millions over a period of ten years on measures to increase the fertility of the soil. It enables all farmers to drain their land effectively and to apply lime and phosphates at a very moderate cost to themselves. When individual farmers do not wish to do this work themselves, the Department of Agriculture is prepared to take on the job for them. The most modern types of drainage and other machinery have been purchased and it seems likely that the Land Project will prove to be as important a measure for Irish agriculture as any of the great Land Acts of the past. The Land Acts enabled the bitter land struggle to be settled peacefully; the Land Project will enable farmers to reap the full fruits of that settlement by increasing the fertility of their holdings and therefore their incomes. The Land Project is being financed from E.C.A. counterpart funds and thus provides a fine example of how the Marshall Plan is operating to promote production over here to the mutual benefit of Ireland and Great Britain.

Another most important feature of Irish agricultural policy is the provision of better extension services for farmers. In a world of rapidly advancing agricultural techniques, it is essential that farmers should be kept abreast of all new methods of husbandry. In the long run, real agricultural progress depends largely on the standard of knowledge possessed by the average farmer. This has always been fully recognized in Ireland, and the extension services hitherto provided have been of a high quality. They have not, however, been organized on quite a sufficiently wide scale and a substantial number of farmers have remained outside their scope. This shortcoming will, it is hoped, be remedied as a result of the Irish Government's " Parish Plan ", which envisages the organization of extension services on a parish basis under the Department of Agriculture. This arrangement should lead to far closer relations between the advisory officers (" Parish Agents ") and the farmers, since the parish is one of the most important social units in Irish rural life. It is intended that each " Parish Agent " will deal with only a few parishes.

In recording the achievements of the past two years, mention must also be made of the measures which have been taken to combat animal diseases. An outstanding example is the very successful campaign against contagious abortion in cattle. This scheme, which was introduced in 1949, provided for the free supply of vaccines and, by arrangement with the Irish veterinary profession, vaccination of cattle was undertaken at a uniform fee by all practising veterinarians in the country. This scheme will considerably increase the number of calves produced by the present number of cows and will contribute to a further expansion in exports of cattle and meat to Great Britain.

The account so far given of Irish agricultural conditions is encouraging, but certain reservations have to be made. The arrangements made by the 1948 Trade Agreement for the sale of cattle and sheep have proved most successful because they gave the Irish farmer a reasonable measure of price stability based on a link between Irish and British agricultural prices. The different arrangements made for the export of pigs and pig products, however, have not worked out satisfactorily. This is regrettable both because pig production is normally a major branch of Ireland's agricultural economy and also because our productive capacity is technically high.

After the big slump in pig production during the war period, Ireland has succeeded in building up pig stocks to a point where she has bacon for export for the first time in about eight years. This point was reached in the autumn of 1949 and some thousands of tons of bacon have been sent to Great Britain since then. As from the beginning of this year, however, the price paid for bacon by Great Britain fell by seven shillings per cwt., although the cost of raising pigs in Ireland, far from diminishing, has actually increased quite sharply. This increase in cost is mainly due to the devaluation of the pound, which resulted in a considerable increase, in terms of our currency, in the cost of maize—a highly important element in the diet of pigs. Although the Irish Government is doing everything in its power to increase the home production of feeding varieties of barley and other foods which provide a substitute for maize, large quantities of maize will be required for a considerable time to come if pig production is to be expanded.

Ireland is thus now faced with the fact that the price paid in Great Britain for British bred pigs is nearly 60 per cent. higher than the price received by Irish farmers for their exports of pig meat to Great Britain. It is not my intention, nor is it any function of mine, to examine the reasons for the internal agricultural price policy of the British Government. It is clear, however, that such a price discrepancy can have no relation whatever to the respective costs of production in both countries and it is difficult to conceive of any practical reason which would justify an increase in British pig prices and a decrease in Irish pig prices in 1950. Yet, this is what has happened—notwithstanding the devaluation of the pound and other factors contributing to increased production costs. It is to be hoped that this problem will yet be solved and that a bargain will be struck between Ireland and Britain that will lead to increasing exports of both bacon and pigs.

Another matter which is giving rise to some concern in Ireland is the disposal of surplus milk production. Irish farmers have increased their output of milk substantially and a further rise is anticipated in view of the upward trend of cattle production generally. Unfortunately, the price which Great Britain will pay for Irish butter does not cover costs of production. As an alternative to butter Ireland is prepared to send large quantities of fresh cream to Great Britain at a price which, in relation to British domestic milk prices, would be most reasonable. This would give the British consumer " a bit of what he fancies ", and would provide a satisfactory outlet for most of Ireland's surplus milk production. It would react favourably in turn on Irish cattle production and in due course it would stimulate still further Irish exports of meat to the British market. If neither of these argosies gets home, Ireland can still try to make a deal with Britain in cheese. The best solution of all would be to agree on fair terms for all three.

With these reservations, I can conclude this article by saying that an immense amount has been achieved to the benefit of both parties under the 1948 Trade Agreement. Some problems remain, but if they are tackled in the same broad and mutually helpful manner as some even greater difficulties have been in the past two years, I am confident that we may look forward to a continuing increase in the contribution of Irish agriculture to British food requirements.

International Banking Review*

Australia

A PROPOSAL to raise the value of the Australian pound in terms of sterling in order to counter rising inflationary pressures has been considered by the Australian Government but has apparently been shelved owing to the opposition of the Country Party. (See also page 4.)

The volume of money held by the public is estimated to have increased by £A 101 millions in the first quarter of 1950; this compares with an increase of £A 220 millions during the whole of 1949. The movement is attributed largely to the effect of the heavy inflow of money from abroad.

Belgium

The Belgian Exchange Control has withdrawn all restrictions on dealings in foreign bank notes with the exception of sterling, Dutch florins and the Czech, Portuguese and Scandinavian currencies, which are covered by special arrangements under separate trade and payments pacts. Apart from transactions in these five currencies there will in future be no limit to the size of foreign bank note transactions and no formalities will have to be fulfilled.

Brazil

The regulation, suspended in April, that placed sterling on the same basis as hard currencies for the purposes of Brazilian exchange control, has now been reimposed. This suggests that Brazil's sterling receipts are again tending to fall short of its expenditures. Trade figures published by the Government show that Brazil's adverse balance with the United Kingdom amounted to 950 million cruzeiros last year compared with 67 million cruzeiros in 1948.

The International Bank for Reconstruction and Development has granted a $15 millions loan to Brazil to cover capital expenditures in the country by the San Francisco Hydro-Electric Company. The loan is for 25 years and the basic interest charge is 3¼ per cent.

Canada

The Foreign Exchange Control Board has revealed that rumours that the Canadian dollar might be restored to parity with the U.S. dollar have led to a considerable increase in the use of the facilities provided by the Board for protecting traders against exchange adjustments. The Board's statement described the rumours as " baseless ". Despite a declaration by Mr. Howe, the Trade Minister, that there were certain factors which raised doubt in his mind " whether the period during which the Canadian dollar remained at a discount against the U.S. currency would not be shorter rather than longer ", the general opinion seems to be that a change is not imminent.

The Government's offer of $745 millions Refunding Loan was heavily oversubscribed. Insurance companies and other institutional investors are stated to have been the main purchasers.

Chile

The Government has revised its exchange budget for 1950. Receipts of foreign exchange are now estimated at U.S. $220 millions, compared with U.S. $307.3

* Other current international banking news is discussed in "A Banker's Diary ", on pages 1-6.

millions in 1949. The original estimate was U.S. $232 millions, and the revision is said to be principally due to disappointing yields from exports of agricultural products. The rise in the cost of wheat imports has increased prospective dollar expenditure by U.S. $9 millions and the exchange budget has been placed in net deficit to the amount of U.S. $21.6 millions. The shortfall is being dealt with by a cut of 10 per cent. in most import categories.

Egypt

A report on the Government's financial and economic policy prepared by the Senate Finance Committee recommends that the scheme for the conversion of the National Bank of Egypt into a central bank should be brought forward for Parliamentary approval during the present session. Another recommendation is that efforts should be made to tap additional sources of revenue and reduce expenditure to produce a balanced budget; the report argues that this has become more urgent now that " the reserve fund has been exhausted ". The committee urges the Government to demand repayment in full of the £300 millions of sterling balances.

Negotiations between the National Bank of Egypt and the Egyptian Government to determine the conditions on which the bank should be converted into the new Central Bank of Egypt have been virtually completed and an extraordinary meeting of shareholders has been held to consider the amendments to the bank's statutes needed to effect the change. The Government proposals envisage the extension of the control of the National Bank of Egypt over all other banks in the country, the conferment on the National Bank of the status of a central bank, the completion of the " Egyptianization " of the bank and an increase in Government control over national banking policy. The Government intends to set up a supreme committee which will consist of three representatives of the Government and three representatives of the bank and which will be presided over by the Minister of Finance, who will have a casting vote. This committee will have full control on all questions relating to exchange, credit and monetary policy as well as in certain other matters agreed between the bank and the State. In other respects the administration of the bank will be the responsibility of the directors.

France

The French bank rate has been reduced from 3 to 2½ per cent. and the rate for loans against securities from 4½ to 3¾ per cent. The adjustments were decided upon by the General Council of the Bank of France as a step towards implementing the new official policy of making credit easier in the hope that this will help to revive flagging business activity. The whole question of the relaxation of credit restrictions is now being investigated by a special commission of the National Council of Credit. The Director-General of the Council, M. Baumgartner, has, however, pointed out that important steps have already been taken to reverse the deflationary measures adopted in 1948. These include the raising of the limit (from Frs. 50 millions to Frs. 100 millions) below which the banks can open credits without prior official approval and the raising of the re-discount " ceiling " of the banks to Frs. 219,000 millions compared with Frs. 187,000 millions in 1948.

In order to encourage the dollar drive, the Government is introducing legislation that will exempt industries exporting to North America from the 5 per cent. tax on salaries and wages and will offer them partial reimbursement of social security payments. The balance of payments showed a marked improvement in 1949, when the overall trade deficit fell to $706 millions, against $1,737 millions in 1948; the dollar deficit, at $857 millions, remained depressingly high.

Restrictions have been withdrawn from the purchase and sale of securities in France by persons residing elsewhere. Non-residents will now be able to subscribe to a stock issue, to sell bonus shares and receive securities as inheritance.

Germany

German proposals for the partial reconstitution of the large German banking units split up by the Allied de-cartelization measures have been under consideration by the Allied authorities. A statement from the U.S. High Commissioner in Germany on these proposals stressed that the fact that the branch offices of a bank were confined to the area of a single state " did not necessarily lessen the effectiveness of the bank's operations ". It conceded, however, that the enlargement of a few banking districts could profitably be considered.

The Allied High Commissioners have reached agreement in principle on the progressive relaxation of the ban on foreign investment in Germany and on the utilization of blocked balances. Foreign investment will be operated through a licensing system directed by the Allied Bank Commission. The regulations will allow capital equipment, raw materials and semi-finished goods to be brought into Germany for investment purposes under special licence and will permit foreigners to acquire D marks from the German Central Bank against acceptable foreign currencies and use them for investment in Germany (subject to the same provisos as govern the investment of existing foreign balances). Owners of existing investments in and claims against Western Germany will in future be allowed greater freedom in the employment of their assets in Germany. But the official announcement explaining the changes makes it clear that convertibility into foreign currencies of capital or income from old or new investments is not at present envisaged. The United States High Commissioner in Germany has stressed that the solution of the German investment problem must come primarily from within Germany and has complained that traditional German banking practices are too slow for current needs. (See also page 6.)

The West German Government has decided that the dollar drive should now be " seriously implemented " and it is setting up a special organization for this purpose. The E.C.A. Special Mission to Western Germany is placing Dm. 2 millions at the disposal of the new body.

The report of the Inter-Allied Reparation Agency for 1949 states that the total reparations extracted from Germany to date amount to $483.4 millions at the 1938 value of the dollar. A little under one-half of this sum represents German assets sequestrated in members' countries. When the programme is completed, the total is expected to rise to about $517 millions. The report asserts that the payment of reparations has had very little effect on the German economy and that the successive cuts in the programme have had little economic justification.

Hong Kong

The British Exchange Control authorities have issued a directive restricting the use of sterling assets of residents of Hong Kong. The broad effect of the move is to block all such assets, including bank accounts in Britain, and to make their future use for most purposes subject to the prior approval of the Bank of England. Assets of the twenty-five banks operating in Hong Kong have been designated No. 1 Accounts, while all assets held by residents of Hong Kong other than the twenty-five banks have been designated No. 2 Accounts. The intention is to channel all normal operations in sterling of residents of Hong Kong through No. 1 Accounts. In future, No. 2 Hong Kong Accounts can be used only for transfers to No. 1 Accounts, for the investment of balances in sterling securities for the

sale of securities for cash or investment, or for certain payments of a regular nature; any other uses of assets in these Accounts must receive official approval. (See also pages 5 and 6.)

India

Government regulations restricting repatriation of foreign capital have been adjusted to bring them broadly into line with those recently adopted by the United Kingdom. An official statement has explained that the repatriation of capital owned by residents of the sterling area, Norway, Sweden and Denmark will not be subject to any restriction. Capital brought into India after January 1, 1950, may be repatriated to other countries up to the amount of the original investment. Profits derived from the " ploughing back " of earnings arising from officially approved capital projects will be available for repatriation, but profits arising from the appreciation of capital originally invested will not. Where investment has taken the form of the purchase of goods and services, the amount available for repatriation will be determined by reference to the rupee value of such goods and services as recorded in the books of the company at the time of the investment. The new repatriation facilities will not apply to the acquisition of shares on the Stock Exchange unless this is an integral part of an approved investment project.

Italy

The Treasury Minister has stated that the Government has now embarked upon the " third stage " of its economic development programme and is setting afoot schemes for large-scale investment.

The Italian authorities have been carrying out a note exchange following the order that lire notes issued by the Allied Military Government and certain denominations of Bank of Italy notes shall cease to be legal tender. Arrangements have been made for lire notes affected by the note exchange and held by overseas banking institutions to be converted into new currency or paid into special accounts with authorized Italian banks in the name of the transferors.

Jordan

Plans for the overhaul of the currency system made necessary by the political changes in Palestine have now been completed. The Palestine pound is to give place to the " dinar " as the recognized unit of account from the beginning of July, but Palestine Currency Board notes and coin will continue to be legal tender until the end of August. The dinar, which will be divisible into 1,000 " mils ", will be linked to sterling at the rate of one dinar to one pound sterling.

Arrangements are being made for the readmission of Jordan to the sterling area when the new currency system is in full operation at the end of August. An agreement has been reached with the British authorities on the extent to which Jordan shall draw on her accumulated sterling reserves during the next twelve months and on the use she can make of the facilities provided by the sterling area dollar pool.

New Zealand

The Prime Minister, Mr. Holland, has announced that the Budget year to March 31, 1950, ended with a deficit of £NZ 25.3 millions. A surplus of £NZ 4.3 millions was shown on the Consolidated Fund Account, but this was after taking account of social security reserves of £NZ 2.6 millions, war expense reserves of £NZ 1 million and of credits created by the Reserve Bank to a total of £NZ 26 millions. The year's yield from all forms of taxation was £NZ 135.6 millions.

The Government has launched a £20 millions internal loan operation to finance its public works programme. It takes the form of a two-fold offer—a 3 per cent. 1959-61 stock at £99 10s., or a 2½ per cent. 1954 stock, at par. The Prime Minister has announced the abolition of the 33⅓ per cent. super-tax on unearned income. He argued that it was foolish to ask people to save and then make them pay a penalty for doing so and expressed the hope that the lifting of this tax would encourage subscriptions to the new national development loan.

Philippines

The Government has issued a directive requiring all non-residents to report assets located in the Philippines—whether expressed in Philippine pesos or in foreign currencies and irrespective of the way in which they are held. To overcome the coin shortage, the Government has also passed a Coin Anti-Hoarding Bill providing penalties for possession of coins in excess of 50 pesos except in authorized cases.

It is reported that the flow of trade is being seriously impeded by delays in the issue of import licences and in the granting of foreign exchange by the Central Bank.

South Africa

The Minister for Economic Affairs, Mr. Louw, has stated that import control has contributed materially to the improvement in the Union's gold reserves, but that the dollar situation still remained difficult and discontinuance of the restrictions would not be advisable for some time yet. The Minister announced, however, that the Government had decided to permit an increase in imports of consumer goods in the second half of 1950 to an extent equivalent to 20 per cent. of the 1948 total. The Government also intended to relax the restrictions on import permits for spending in hard currency areas in order to assist firms which are obliged to obtain the bulk of their material from hard currency areas. The Minister also asserted that the payments agreement with Britain was not working out as South Africa had hoped. The British authorities, he claimed, were now " tending to demand payment in gold " for some articles (notably tinplate) which were not on the list of goods which the agreement originally laid down. Mr. Louw's complaint suggests that South Africa believes the agreement with Britain gives her the right to decide which articles shall be classified as essential and therefore payable in gold and which articles shall be classified as less essential and can therefore be paid for in sterling. The details of the pact have never been published.

United States

Statistics released by the Federal Reserve Board indicate that industrial production in the United States in May came within 1 per cent. of the record set up at the height of the 1948 boom. The increase in business activity has brought an expansion in the demand for bank loans, the end-May total of $44,100 millions being $1,000 millions above the end-1949 level. The largest increases in bank advances have been those for real estate and consumer goods. The expansion in the volume of privately-held deposits during the spring months of this year is stated to have been materially greater than it was in either 1948 or 1949.

Estimates of the level of business investment prepared by the Department of Commerce and the Securities and Exchange Commission have again been revised upwards. During the first nine months of the year outlays are now expected to total $12,700 millions or only 6 per cent. less than in the corresponding period of 1949. At the beginning of the year the drop in business outlays in 1950 was officially forecast as likely to reach 15 per cent.

Appointments and Retirements

Barclays Bank (D., C. and O.)—Mr. Rudolph Peter Van Der Merwe has been appointed a member of the Cape local board.

Clydesdale and North of Scotland Bank—*Cupar:* Mr. W. Robb, from head office banking dept., to be manager, in succession to Mr. R. Landsman.

District Bank—*Barrow-in-Furness:* Mr. H. C. Barber to be accountant. *Lancaster, Church Street:* Mr. G. K. Knowles to be accountant. *Leigh (Lancashire):* Mr. F. W. Canby, from Barrow-in-Furness, to be manager. *Stoke-on-Trent:* Mr. F. R. Bestwick to be accountant. *Wigan, King Street:* Mr. S. Kirkham, from Leigh (Lancashire), to be manager.

Erlangers Limited—Mr. Gerard J. R. L. d'Erlanger, C.B.E., has joined the board of directors.

Lloyds Bank—*Pall Mall, S.W.:* Mr. G. P. Scrivener, a section manager, has retired. *Brighton, Kemp Town:* Mr. E. E. F. Brookman to be manager. *Cambridge:* Mr. A. J. Parry is retiring on August 31 after 44 years' service; Mr. C. D. Henderson, from Norwich, to be manager. *Cardiganshire, New Quay:* Mr. H. Rees, M.M., from Maesteg, to be manager. *Chard:* Mr. H. R. Williams, from Bridgwater, to be manager in succession to the late Mr. H. E. Thuell. *Hayes, Middlesex:* Mr. J. R. Turnbull to be manager. *Newbury:* Mr. J. M. Laycock, an inspector, to be manager. *Newcastle upon Tyne—Barras Bridge:* Mr. J. Scorer, from Sheffield, to be manager; *Collingwood Street:* Mr. H. T. Dees, from Barras Bridge, to be assistant manager. *Norwich:* Mr. A. Pullan, from Newbury, to be manager. *Sheffield:* Mr. F. C. Booley, of the inspection staff, to be sub-manager. *Shifnal:* Mr. J. E. Coates, from Worcester, C. & C., to be manager. *Southall:* Mr. L. W. Gardener, from Greenford, to be manager in succession to the late Mr. E. C. French.

Martins Bank—*Isle of Man, Ramsey:* Mr. L. Kermode to be manager.

Midland Bank—Sir Colin Skelton Anderson has been elected a member of the board and of the board of the Midland Bank Executor and Trustee Co., Ltd. *London—King's Cross:* Mr. E. F. S. Bailey, from Golders Green, to be manager; *Mile End:* Mr. W. M. Long, from King's Cross branch, London, to be manager on retirement of Mr. S. S. Herbert. *Birmingham, Harborne:* Mr. D. F. Roberts, from Willenhall, to be manager on retirement of Mr. S. F. Bruton. *Leighton Buzzard:* Mr. L. T. Coles to be manager in succession to the late Mr. W. A. Cockburn. *Llandudno Junction:* Mr. S. T. Hughes, of Bangor, to be manager. *Midland Bank Executor and Trustee Co., Ltd.—Cardiff:* Mr. D. Kerr, from Manchester, to be manager of this new branch.

National Bank of Scotland—*Grantown-on-Spey:* Mr. J. L. Dewar to be manager, on retirement of Mr. W. Mackintosh. *Glasgow, Shawlands:* Owing to the death of Mr. R. S. Mearns, joint manager, this branch will be continued under the charge, as sole manager, of Mr. W. H. O. Alexander.

Schroder & Co., J. Henry—J. Henry Schroder & Co. announce that Mr. Jonathan Backhouse will shortly become associated with them, when he will be given the full signature of the firm.

Smith St. Aubyn & Co., Ltd.—Mr. John Lindsay Eric Smith has been appointed an additional director.

Union Bank of Scotland—*Edzell:* Mr. W. Jardine, from Helensburgh, to be manager on retirement of Mr. R. Allison. *Glasgow, Bothwell Street:* Mr. J. McKenzie, from Glasgow head office, to be manager on retirement of Mr. A. McEwan.

Westminster Bank—*Alfreton:* Mr. S. R. Botham, from Knutsford, to be manager. *Bakewell:* Mr. F. V. Stirland, from Wirksworth, to be manager on retirement of Mr. F. H. Taylor. *Billingshurst:* Mr. R. C. Duke, from Billingshurst, to be manager. *Cardiff Docks:* Mr. A. McGeoch, from Dudley, to be manager. *Chester:* Mr. F. N. Brockley, from Huyton, to be assistant manager. *Edmonton:* Mr. H. L. Wright, from Holloway, to be manager. *Haywards Heath and Burgess Hill:* Mr. J. E. Mytton, from Billingshurst, to be manager. *Huyton:* Mr. J. W. Butterworth, from Neston, to be manager. *Ilford, Valentines Park:* Mr. W. Ockenden, from Goodmayes, to be manager on retirement of Mr. L. G. Baily. *Kensington, Melbury Court:* Mr. W. A. Hazelden, from Ebury Street, to be manager in succession to the late Mr. C. E. Fuller. *Kingswood and Hanham:* Mr. E. J. Cheesman, from Cardiff Docks, to be manager on retirement, owing to ill-health, of Mr. F. J. Clark. *Leigh-on-Sea, Benfleet, Hadleigh, Leigh-on-Sea (Highlands):* Mr. G. Stanley, from Littlehampton and Rustington, to be manager on retirement, owing to ill-health, of Mr. E. E. Sheffield. *Littlehampton and Rustington:* Mr. A. W. Tice, from Haywards Heath and Burgess Hill, to be manager. *Mornington Crescent:* Mr. E. C. Wallis, from Holland Park and Shepherd's Bush, to be manager. *Neston:* Mr. W. F. L. James, from Liverpool, Victoria Street, to be manager. *Northwich and Middlewich:* Mr. H. Smith, from Alfreton, to be manager on retirement of Mr. S. J. Webster. *Stratford:* Mr. S. E. Thomas, from Upper Clapton, to be manager on retirement of Mr. J. H. May.

Williams Deacon's Bank—Mr. A. H. Allman, chief accountant, to be an assistant general manager. Mr. R. B. Mallory to be chief inspector of branches and Mr. R. G. Upton chief accountant.

Yorkshire Penny Bank—Mr. F. C. Ellerton, a vice-chairman of Barclays Bank, Ltd., has been appointed a director to fill the vacancy caused by the death of Mr. W. O. Stevenson.

Banking Statistics

National Savings

(£ millions)

	Savings Certificates (net)	Defence Bonds (net)	Savings Banks (net)*	Total Small
1946 I ..	13.2	62.0	120.7	195.9
II ..	1.0	95.9	36.2	133.1
III ..	– 1.2	13.4	35.6	47.8
IV ..	10.8	17.9	11.8	40.5
1947 I ..	39.7	20.4	27.0	87.1
II ..	40.3	– 3.7	– 19.6	17.0
III ..	2.7	– 19.8	2.9	– 14.2
IV ..	16.4	– 25.1	17.2	8.5
1948 I ..	29.4	– 29.9	54.6	54.1
II ..	– 2.3	– 31.2	13.7	– 19.8
III ..	– 4.5	– 20.3	6.4	– 18.4
IV ..	– 7.2	– 5.8	8.3	– 4.7
1949 I ..	7.3	– 1.4	52.2	58.1
II ..	– 1.5	– 0.4	8.6	6.7
III ..	– 7.6	– 4.8	– 2.7	– 15.1
IV ..	– 8.9	– 5.1	– 3.2	– 17.2
1950 I ..	– 5.5	– 9.1	36.6	22.0
1948 Dec. ..	– 2.3	– 1.3	– 9.6	– 13.2
1949 Jan. ..	3.7	– 0.8	25.7	28.6
Feb. ..	2.3	0.3	16.0	18.6
Mar. ..	1.3	– 0.9	10.5	10.9
April ..	1.0	0.1	9.7	10.8
May ..	– 0.6	– 0.5	2.9	1.8
June ..	– 1.9	—	– 4.0	– 5.9
July ..	– 2.7	– 1.2	– 9.5	– 13.4
Aug. ..	– 1.9	– 1.6	– 0.3	– 3.8
Sept. ..	– 3.0	– 2.0	7.1	2.1
Oct. ..	– 1.6	– 1.5	7.7	4.6
Nov. ..	– 3.1	– 1.7	1.8	– 3.0
Dec. ..	– 4.2	– 1.9	–12.7	– 18.8
1950 Jan. ..	– 0.6	– 1.8	17.6	15.2
Feb. ..	– 3.2	– 2.6	13.0	7.2
Mar. ..	– 1.7	– 4.7	6.0	– 0.4
April ..	– 2.5	– 3.2	8.7	3.0
May ..	– 3.8	– 3.4	0.4	– 6.8

* Including Release Benefit Accounts from July, 1945.

Ordinary Revenue and Expenditure

Year to Mar. 31:	Ord. Exp. £m.	Ord. Rev. £m.	Deficit £m.
1938 ..	898.1*	872.6	25.5*
1939 ..	1054.8*	927.3	127.5*
1940 ..	1809.7*	1049.2	760.5*
1941 ..	3867.2	1408.9	2458.3
1942 ..	4775.7	2074.1	2701.6
1943 ..	5623.2	2819.9	2803.3
1944 ..	5788.4	3038.5	2749.9
1945 ..	6057.8	3238.1	2819.7
1946 ..	5474.8	3284.5	2190.3
1947 ..	3910.3	3341.2	569.1
1948 ..	3187.1	3844.9	657.8†
1949 ..	3152.8	4006.6	853.8†
1950 ..	3356.6	3924.0	567.4†

By Quarters:	Ord. Exp. £m.	Ord. Rev. £m.	Deficit £m.
1946 IV ..	861.1	738.6	122.5
1947 I ..	1228.9	1261.5	32.6†
II ..	619.8	840.1	220.3†
III ..	808.3	807.5	0.7
IV ..	736.1	761.5	25.4†
1948 I ..	1023.0	1435.8	412.8†
II ..	613.8	794.8	181.0†
III ..	751.4	831.7	80.2†
IV ..	791.4	802.7	11.3†
1949 I ..	996.2	1577.9	581.7†
II ..	754.0	756.7	2.8†
III ..	833.0	820.7	12.3
IV ..	823.7	811.0	12.7
1950 I ..	946.0	1536.3	590.3†

*Allowing for loan expenditure. † Surplus.

Floating Debt

	June 18, 1949 £m.	May 27, 1950 £m.	June 3, 1950 £m.	June 10, 1950 £m.	June 17, 1950 £m.
Ways and Means Advances:					
Bank of England	0.3	4.0	—	—	2.0
Public Departments	330.8	439.1	431.2	413.2	411.9
Treasury Bills:					
Tender	2210.0	3050.0	3070.0	3080.0	3090.0
Tap	2257.5	1812.0	1838.2	1765.2	1784.8
Treasury deposit receipts	1204.5	400.0	390.0	380.0	370.0
	6003.1	5705.1	5729.4	5638.4	5658.7

BANK ADVANCES IN GREAT BRITAIN*
(LATEST QUARTERLY STATEMENTS)

Group	February† 1946 £000's	% of total	May 1949 £000's	% of total	August 1949 £000's	% of total	November 1949 £000's	% of total	February 1950 £000's	% of total	May 1950 £000's	% of total
1. Coal Mining	8,925	1.1	6,257	.4	5,749	.4	5,267	.3	5,670	.3	5,604	.3
2. Quarrying, etc.	2,328	.3	4,541	.3	4,285	.3	3,891	.2	4,235	.3	4,345	.3
3. Iron and Steel & Allied Trades	15,353	1.8	23,260	1.6	25,284	1.7	24,520	1.6	23,806	1.4	24,902	1.5
4. Non-ferrous Metals	1,978	.2	3,168	.2	3,544	.2	4,041	.3	6,410	.4	6,346	.4
5. Engineering, etc.	66,557	7.8	114,812	7.7	104,685	7.0	96,264	6.3	96,019	5.8	91,409	5.3
6. Shipping and Shipbuilding	10,318	1.2	17,336	1.2	15,464	1.0	15,608	1.0	16,216	1.0	15,463	.9
7. Transport and Communications	9,570	1.1	17,337	1.2	16,340	1.1	15,656	1.0	18,196	1.1	16,323	1.0
8. Cotton	7,091	.8	7,631	.5	8,786	.6	7,717	.5	9,153	.6	9,152	.5
9. Wool	4,315	.5	11,965	.8	14,013	.9	11,331	.7	18,667	1.1	22,069	1.3
10. Other Textiles	10,232	1.2	26,231	1.8	25,090	1.7	25,099	1.6	33,064	2.0	36,478	2.1
11. Leather and Rubber	4,925	.6	9,764	.7	9,564	.6	9,490	.6	11,687	.7	15,251	.9
12. Chemicals	9,185	1.1	18,352	1.2	19,256	1.3	17,703	1.2	21,035	1.3	24,703	1.4
13. Agriculture and Fishing	66,489	7.8	134,265	9.0	142,298	9.5	145,600	9.5	151,682	9.2	159,969	9.3
14. Food, Drink, and Tobacco	57,230	6.8	110,980	7.5	94,838	6.3	110,325	7.2	115,188	7.0	127,285	7.4
15. Retail Trade	62,248	7.3	158,090	10.6	159,681	10.7	166,211	10.8	173,522	10.6	188,760	11.0
16. Entertainment	26,731	3.2	33,936	2.3	33,504	2.2	32,287	2.1	32,533	2.0	32,700	1.9
17. Builders and Contractors	38,770	4.6	61,544	4.1	62,678	4.2	62,267	4.1	64,593	3.9	64,161	3.8
18. Building Materials	4,988	.6	12,415	.8	12,632	.9	12,471	.8	13,708	.8	13,921	.8
19. Unclassifiable Industry and Trade	27,926	3.3	76,942	5.2	79,553	5.3	83,830	5.5	90,579	5.5	91,376	5.3
20. Local Government Authorities	78,696	9.3	84,101	5.7	88,449	5.9	85,875	5.6	90,063	5.5	84,460	4.9
21. Public Utilities (other than Transport)	7,285	.9	15,995	1.1	20,937	1.4	42,371	2.8	79,147	4.8	90,362	5.3
22. Churches, Charities, Hospitals, etc.	10,369	1.2	9,050	.6	10,039	.7	10,306	.7	10,654	.6	10,810	.6
23 Stockbrokers	4,081	.5	4,330	.2	4,179	.3	5,801	.4	5,774	.4	5,347	.3
24. Other financial	73,168	8.6	126,248	8.5	128,761	8.6	131,266	8.6	140,297	8.5	151,856	8.9
25. Personal and Professional	239,549	28.2	399,200	26.8	407,467	27.2	407,344	26.6	413,983	25.2	422,059	24.6
TOTALS	848,307	100.0	1,487,750	100.0	1,497,076	100.0	1,532,541	100.0	1,645,881	100.0	1,715,111	100.0

* Including all members of British Bankers' Association. † Date of first classification in new post-war series.

Treasury Deposit Receipts

		Raised £m.	Redeemed £m.	Outstanding† £m.
1948	June 30*	269.0	178.0	1468.0
	Sept. 30	550.5	452.0	1449.5
	Dec. 31	260.0	181.0	1511.0
1949	March 31	274.5	158.5	1135.5
	June 30	298.0	194.0	1243.5
	Sept. 30	—	258.0	911.0
	Oct. 29	50.0	183.0	778.0
	Nov. 26	185.0	208.5	754.5
	Dec. 31	260.0	142.5	872.0
1950	Jan. 28	—	288.5	583.5
	Feb. 25	—	89.0	494.5
	March 31	—	29.5	465.0
	April 29	50.0	60.0	455.0
	May 27	110.0	165.0	400.0

* Periods ended on last Saturday in each month, except at final month in each quarter.
† The T.D.R. issue reached its highest level on September 7, 1945, at £2225 millions.

1949 Week ended :	Raised	Redeemed	Net New Borrowing
Dec. 17 ..	100.0	43.5	56.5
,, 24 ..	50.0	21.5	28.5
,, 31 ..	—	16.0	- 16.0
1950			
Jan. 7 ..	—	42.0	- 42.0
,, 14 ..	—	63.0	- 63.0
,, 21 ..	—	117.5	-117.5
,, 28 ..	—	66.0	- 66.0
Feb. 4 ..	—	38.5	- 38.5
,, 11 ..	—	1.0	- 1.0
,, 18 ..	—	46.5	- 46.5
,, 25 ..	—	3.0	- 3.0
Mar. 4 ..	—	—	—
,, 11 ..	—	—	—

1950 Week ended :	Raised	Redeemed	Net New Borrowing
Mar. 18 ..	—	12.5	- 12.5
,, 25 ..	—	15.0*	- 15.0*
April 1 ..	—	—	—
,, 8 ..	—	—	—
,, 15 ..	—	6.5	- 6.5
,, 22 ..	25.0	28.5	- 3.5
,, 29 ..	25.0	25.0	—
May 6 ..	20.0	45.0	- 25.0
,, 13 ..	30.0	50.0	- 20.0
,, 20 ..	40.0	40.0	—
,, 27 ..	20.0	30.0	- 10.0
June 3 ..	40.0	50.0	- 10.0
,, 10 ..	30.0	40.0	- 10.0
,, 17 ..	40.0	50.0	- 10.0

* Unofficial figures.

Britain's Gold and Dollar Reserves

(Millions of U.S. dollars)

Years and Quarters	Net Deficit	Financed by : U.S. and Canadian Credits	Purchases from I.M.F.	S. African Gold Loan	E.R.P.	Change in Reserves	Reserves at end of Period
1946	908	1123	—	—	—	+ 220	2696
1947	4131	3273	240	—	—	- 618	2079
1948 :							
I	595	345	88	325	—	+ 162	2241
II	434	7	16	—	89	- 321	1920
III	306	—	—	—	163	- 143	1777
IV	375	—	24	—	430	+ 79	1856
Total, 1948 ..	1710	352	128	325	682	- 223	1856
1949 :							
I	330	30	32	—	325	+ 56	1912
II	632	30	—	—	340	- 262	1651
III	539	29	—	—	284	- 225	1425
IV	31	27	20	—	246	+ 263	1688
Total, 1949 ..	1532	116	52	—	1196	- 168	1688
1950 :							
I	+ 40	27	—	—	229	+ 296	1984

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HIS MAJESTY'S COLONIAL SERVICE

East Africa High Commission

Vacancies exist for Assessors of Income Tax in the East African Income Tax Department. The duties consist of the examination of income tax returns and the assessment and collection of income tax under the direction of the Regional Commissioner. Candidates appointed to these posts may be required to serve in Kenya, Uganda or Tanganyika. Appointment will be on two years' probation for permanent and pensionable employment. The salary scale is £550 (for two years) rising to £1,320 per annum. There is a proficiency bar at the £1,140 point in the scale. War service, qualifications and experience will determine the point of entry into the salary scale. Government quarters, if available, are provided at a rent not exceeding 10 per cent. of salary. Free passages are provided on first appointment and on leave for officer and wife, and for children up to the cost of one adult fare. Income tax is at local rates, which are very much lower than those in the United Kingdom. The tour of service varies from two to four years according to the Colony. Leave on full salary is granted at the rate of five days for each completed month of resident service. In addition local leave is granted. Candidates under 45 preferred, but in certain circumstances candidates above that age with good experience would be considered for appointment on contract for a limited period. Applicants should possess accounting qualifications granted by recognized professional bodies and must have a good knowledge of income tax work. They should write forthwith for a form of application to the Director of Recruitment (Colonial Service), Colonial Office, Sanctuary Buildings, Great Smith Street, S.W.1, quoting reference No. 27042/19/50.

ESTABLISHED 1877

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LORD McGOWAN'S SURVEY OF ACTIVITIES

THE twenty-third annual general meeting of Imperial Chemical Industries, Limited, was held on June 8 in London.

The Rt. Honourable Lord McGowan, K.B.E., D.C.L., LL.D., the Chairman, in the course of his speech said:

The consolidated trading results were about £4,000,000 lower in 1949 than in 1948. The main factors accounting for this were additional costs of production—including wages, raw materials and fuel—not reflected during 1949 in increased selling prices, and a fairly sharp reduction in the export prices of some of our products to meet the competition, which I forecast when I spoke to you last year. You may remember that I then said that the sellers' market had gone for nearly all products and that we should have to fight hard to keep our overseas markets and develop new ones, particularly in hard currency areas. Gone are the days when, for many products, we were unable to produce enough for all our customers at home and overseas, and had to resort to rationing of one kind or another in order to maintain a fair balance between the many different claims upon our output.

There was a time when it was possible, and indeed our national duty, to obtain enhanced prices for our exports, and but for the prices we received in our export markets, we should not have been able to keep our home prices so low. To-day we must keep a careful eye on our prices if we are not to lose business to keen competitors. We have not been unsuccessful, and, indeed, at £174,000,000 our turnover is £10,000,000 higher than in 1948. The total value of exports was also higher in 1949 than in 1948. In 1949 we did a larger volume of business at a smaller margin; this reduction in the margin of profits being due to both increased costs and reduced or maintained selling prices.

The final dividend proposed for 1949 is 7 per cent., making a total of 10 per cent., which is the same as in the past few years.

OVERSEAS ACTIVITIES

In its overseas activities, the company's fortunes are, of course, subject to all the winds of political disturbance that blow. In the sub-continent of India, for example, the tension between India and Pakistan has made conditions difficult. In China the southward sweep of the Communist armies has meant a curtailment of our activities there.

In other parts of the world, particularly in South America, difficulties have arisen because of currency restriction and import licensing, but, generally speaking, the company has fared reasonably well, having regard to these conditions, and we are not unhopeful of the prospects of the future when, in some countries at any rate, these restrictions upon trade and upon the remittance of profits may be eased.

In Australia, notwithstanding considerable industrial unrest, our subsidiary company, Imperial Chemical Industries of Australia and New Zealand, Ltd., celebrated with increased profits for 1949 not only the twenty-first anniversary of its incorporation, but also the seventy-fifth year since the foundation of the first factory which ultimately became absorbed in its undertaking—a notable double event. In Canada, too, our associated company, Canadian Industries, Ltd., has achieved a new level of prosperity, higher indeed than its record figures for 1948.

PURCHASE OF ARNOLD HOFFMAN & CO.

So far as the United States is concerned, I have an encouraging story to tell. The negotiations announced some time ago for the purchase of a controlling interest in the share capital of Arnold Hoffman and Co., Inc., have been successfully concluded, and the company now owns 70 per cent. of that corporation's capital. Through the organisation of this American corporation we expect to be able to develop by manufacture in the United States the results of patient research in our own laboratories in Britain and we also expect to find new openings for the export to the United States of products manufactured in Britain.

THE CURRENT YEAR

When I last addressed you I said that I saw no cause for pessimism, nor was there at that time. Shortly afterwards, however, there was a recession of trade in the home market and a distinct falling off in the sales of many of our products. In addition we had to reduce our prices in certain export markets because of competition. Although towards the end of the year business at home improved, the improvement was insufficient to compensate for the earlier fall in home sales and price reductions in the export markets. At a time like this, with the world so disturbed, it is more dangerous than ever to prophesy; all I can say is that we are very satisfied with the trading for the first months of this year and that as far as one can see at the moment the prospects are encouraging. I can only hope that exchange and import licence restrictions will not make conditions more difficult in our export markets.

The report and accounts were adopted.

OTTOMAN BANK

STRONG BALANCE-SHEET POSITION

THE eighty-third annual general meeting of the Ottoman Bank was held on June 21 at Winchester House, Old Broad Street, London, E.C., The Rt. Hon. Lord Latymer (the chairman) presiding.

The Chairman said: Ladies and gentlemen, —I have been informed that this meeting is properly constituted and I presume that it is your wish that the report and balance-sheet, already circulated, be taken as read.

I shall shortly invite your closer attention to the figures in the balance-sheet before you and to the progress of our branches in the countries where we are established, but may I first refer to recent changes in your Board of directors and to a most important matter which has already been mentioned in the notice convening the meeting, which has just been read to you.

CHANGES IN THE BOARD

In July, 1949, Mr. R. W. M. Arbuthnot, M.C., a valued member of our committee in London since 1944, retired for reasons of health. To fill the vacancy we have nominated Mr. S. E. Abbott, O.B.E., whose definitive election is to be submitted to you later. Mr. Abbott comes to us after a distinguished career in the Indian Civil Service and, I am sure, will be of great assistance to your committee in deliberating the many intricate problems which confront them.

CONVENTION WITH TURKISH GOVERNMENT

You know that the present convention dated June 5, 1933, which governs both the existence of our company and its relations with the Turkish Government, was to come to an end on March 1, 1952, and I am happy to inform you that, following recent negotiations in Ankara, conducted in a spirit of mutual confidence, an agreement has been reached for the renewal of this convention. As this agreement is to be submitted in the near future to the Grand National Assembly for ratification, you will certainly understand our hesitation in making any further statement until the Government itself has placed the matter before the said Assembly. At our next meeting, however, I shall be able to give you details concerning this new convention.

As the new convention permits the extension of the duration of the Ottoman Bank as a company, we shall shortly submit to you a resolution investing your committee with powers enabling them, in case of need, to extend the existence of the company and to make the necessary amendments to Articles 1 and 3 of the Statutes. At our next reunion, the committee will give you an account of the use which they will have made of these powers.

CHAIRMAN'S RECENT VISIT

Although, strictly speaking, it is scarcely within the period which we have met to review, I feel that you will be most interested to know that when I was visiting Amman a few weeks ago His Majesty King Abdullah graciously opened our extended premises and new strong-rooms there.

MOROCCO

Later I went with the Paris chairman and vice-chairman to Morocco, where since 1948 we have been seriously considering the possibilities of extending our activities. It is a country whose recent economic development has been remarkable and which has many ties, both racial and financial, with the countries of the Mediterranean seaboard where we and our affiliated institutions are already established. Towards the end of 1949 we were fortunate enough to secure suitable premises in Casablanca and our branch there opened a few weeks ago. I have hopes that this will prove a sound and profitable expansion of our business.

BALANCE-SHEET ITEMS

Turning to the balance-sheet before you, you will see a total of £66,689,423, which is over £3,500,000 in excess of the figure for the previous year; this increase is attributable to the devaluation of sterling in September, 1949. The currencies of most of the countries in which we carry on our business were correspondingly devalued, but the Turkish pound, and, to a lesser extent, the French franc, improved in value in relation to sterling. On the liabilities side the effect is principally shown in the item "Current, deposit and other accounts," which is up by more than £3,250,000.

The balance-sheet continues to show a liquid position, although " Cash and money at call " together are down by £3,000,000. Investments remain at about the same figure and still consist principally of British Government securities, most of which are short-dated. The " Bills receivable" and "Advances to customers" are up by more than £3,000,000 each, reflecting partly the increased value of Turkish pounds and partly a more active employment of funds.

RESULTS OF YEAR'S OPERATIONS

The profit and loss account shows a result for the year of £175,307, as compared with £157,505 for 1948, after providing in each year for bad and doubtful debts, with particular regard to the unsettled conditions in certain of the countries in which we operate. Adding the remittances of profits of previous years amounting to £177,782 and the balance brought forward from 1948, there is a total available of £388,851, out of which the committee has decided to transfer a sum of £150,000 to " Reserve for contingencies."

The balance remaining on profit and loss account is £238,851 16s. 3d., and the committee propose that a dividend of 8s. per share be paid this year, absorbing £200,000 and leaving £38,851 16s. 3d. to be carried forward to 1950.

The report was adopted.